Facing Reality:
Consultation, Consensus and Making Economic Policy for the 21st Century

James Gillies

1. *Consultation: The Canadian Way?* The Canadian Economy: A Troubled Outlook? The New International Patterns Canada, the United States, and Trade Reacting to Change Business Leaders, Politicians, and Consultation Consensus and Consultation Notes 2. *Industrial Strategy: An Idea Whose Time Has Come* Defining the Indefinable Objections to Industrial Strategies The Impetus for the Use of Industrial Strategies Some General Characteristics of Industrial Strategies and Programs Notes 3. *A Nineteenth-Century Strategy for a Twenty-First-Century World* The More the Change, the More of the Same The Power of an Idea The Staple Thesis and Public Policy Challenging the Conventional Wisdom Minor Policies for Major Problems: (I) The Chronic Imbalance in the Current Account of the Balance of Payments Four Decades of Dealing with the Balance-of-Payments Problem Minor Policies for Major Problems: (II) The Productivity of Manufacturing Solving the Intractable Problems Notes 4. *Building a National Economic Strategy through Private Sector Consultation: The Canadian Experience, 1970-1985* Prime Minister Trudeau and the Battle for a New National Economic Strategy Replacing the Old with the New: The Bureaucratic Battles The Tier I/Tier II Exercise The Government Responses Government Restructuring Tier I/Tier II: The Final Results Task Forces on Major Projects and the Creation of Industrial Policy Making Policy without Consultation Lessons from the Experiences of 1970-1985 Notes 5. *Creating a New Consensus: How Can It Be Done?* Tripartitism: A Canadian Non-starter Consensus Building in a Multigoverned Country Federal-Provincial Conferences and Consultation Consensus Building at Federal-Provincial Conferences The Provinces as Consensus Builders The Federal Government and Consensus Building Creating Consensus: Initiating the Process Notes 6. *From Goals to Action: Sector Forums Revisited* Making the Trade-offs Organizing Sector Forums Making Sector Forums Work: Shifts in Influence and Power Targeting Winners and Losers Sector Forums and the Provinces Business Leaders, Politicians, and Sector Forums Creating Effective Forums in Canada Notes 7. *The Economic Future: Bleak or Bright?* Institutional Inertia versus International Change Rethinking Adam Smith

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JAMES GILLIES

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For my colleagues in the Policy Area
of the Faculty of Administrative
Studies, York University

Contents

Foreword xi

Avant-propos xv

Preface xix

The Author xxiii

Summary xxv

Abrégé xxxi

1: **Consultation: The Canadian Way?** 1
- The Canadian Economy: A Troubled Outlook? 1
- The New International Patterns 4
- Canada, the United States, and Trade 8
- Reacting to Change 12
- Business Leaders, Politicians, and Consultation 14
- Consensus and Consultation 16
- Notes 20

2: **Industrial Strategy: An Idea Whose Time Has Come** 25
- Defining the Indefinable 26
- Objections to Industrial Strategies 28
- The Impetus for the Use of Industrial Strategies 38
- Some General Characteristics of Industrial Strategies and Programs 41
- Notes 45

3: A Nineteenth-Century Strategy for a Twenty-First-Century World 51

The More the Change, the More of the Same 52

The Power of an Idea 56

The Staple Thesis and Public Policy 58

Challenging the Conventional Wisdom 60

Minor Policies for Major Problems: (I) The Chronic Imbalance in the Current Account of the Balance of Payments 62

Four Decades of Dealing with the Balance-of-Payments Problem 65

Minor Policies for Major Problems: (II) The Productivity of Manufacturing 71

Solving the Intractable Problems 76

Notes 78

4: Building a National Economic Strategy through Private Sector Consultation: The Canadian Experience, 1970-1985 85

Prime Minister Trudeau and the Battle for a New National Economic Strategy 86

Replacing the Old with the New: The Bureaucratic Battles 90

The Tier I/Tier II Exercise 95

The Government Responses 100

Government Restructuring 101

Tier I/Tier II: The Final Results 103

Task Forces on Major Projects and the Creation of Industrial Policy 106

Making Policy without Consultation 111

Lessons from the Experiences of 1970-1985 114

Notes 118

5: Creating a New Consensus: How Can It Be Done? 123

Tripartitism: A Canadian Non-starter 124

Consensus Building in a Multigoverned Country 126

Federal-Provincial Conferences and Consultation 127

Consensus Building at Federal-Provincial Conferences 129

The Provinces as Consensus Builders 134

The Federal Government and Consensus Building 137

Creating Consensus: Initiating the Process 147

Notes 150

6: From Goals to Action: Sector Forums Revisited 157
Making the Trade-offs 157
Organizing Sector Forums 160
Making Sector Forums Work: Shifts in Influence and Power 163
Targeting Winners and Losers 166
Sector Forums and the Provinces 167
Business Leaders, Politicians, and Sector Forums 168
Creating Effective Forums in Canada 169
Notes 171

7: The Economic Future: Bleak or Bright? 173
Institutional Inertia versus International Change 173
Rethinking Adam Smith 177
New National Economic Goals: New National Economic Policies? 181
Notes 183

Appendix A: Consensus Building and Free Trade with the United States 185

Appendix B: Keeping Resource Processing in Canada 189

Appendix C: Matrix of Some Government Development Initiatives for Canadian Industry 193

Appendix D: Questionnaire for Participants in the 1970 Strategy Debate 195

Bibliography 199

The Members of the Institute 209

Institute Management 213

Publications Available 215

Foreword

In a fascinating argument addressed primarily, but not exclusively, to the business community, Professor Gillies has put forcefully the case that in confronting Canada's current economic problems, it is not enough simply to forge consensus on national objectives – it is essential also to create mechanisms which can meaningfully discriminate amongst real strategic options for national economic policies, and can force a choice amongst them in the face of full awareness that serious economic and personal costs may thereby be visited on people, firms, industries, and regions.

In setting out this case, Professor Gillies is thus addressing the most basic structural challenge posed for a parliamentary democracy with an informed electorate increasingly sensitive to any challenge to entrenched rights and entitlements. His argument carries forward some of the ideas introduced in his earlier book – the Institute's all-time best seller – *Where Business Fails*.

In a variety of ways Institute staff have been arguing that economic policy problems and social policy concerns cannot be separated simply into prior questions of "efficiency" and subsequent questions of "equity", or cast into terms of some simple "tradeoff". We have argued that the *quid pro quo* essential in any strategy of "opening to the market" or "opening to the world" is the assurance of strong foundations for social policy – not just labour market adjustment programs, but also fundamental assurances of economic security in some form. This in turn entails some balanced and integrated treatment of social and economic concerns in the development of any national response to the challenges of a changing international economic environment.

In this book, Professor Gillies recognizes the likely magnitude of the social impacts of economic adjustment. He suggests ways that the federal government might nevertheless go about creating a consensus that sticks, and making decisions that actually discriminate among available options, rather than merely obfuscate the issues; and he urges business to join the process he describes. The pursuit of economic security through the market, it is implied, is at least preferable to its promotion directly through government intervention and increasingly unsustainable income transfer programs. Whether the mechanisms proposed by Professor Gillies might lead to undue weight being attached to business views in parliamentary, executive, or bureaucratic processes is a question the reader will have to judge individually.

Specifically, Professor Gillies suggests that a process of setting goals and establishing consensus on national objectives could be led by a joint committee of House and Senate dedicated to this task. But more important is the recognition that any strategy adopted in response to the severe challenges posed by a rapidly changing world economy – an economy facing Canada with the possibility of enduring adverse changes in terms of trade, and thus making a mockery of national strategies focussed on resource development at the expense of manufacturing (and service?) activities – will entail serious problems of adjustment and the possibility of massive costs for firms and individuals. To break the social stalemate which usually accompanies this situation – that is, to overcome the Schultze/Thurow/Olson dilemma of paralysis in the policy process, or what C.M. Drury once referred to as the tragedy of the Commons (with a capital C) – Professor Gillies suggests a network of permanent sector forums. Throughout his book runs a plea to business people that they should participate in such consultative bodies even though such participation may require them to subordinate the interests of their firm or industry to their perception of some overriding national interest.

There are, of course, many possible objections to this line of argument. Following the logic of Milton Friedman, one might suggest that business people who accept Professor Gillies' invitation are either failing in their responsibilities to their shareholders or are playing off the costs by exploiting their workers or cheating their customers. Analysts like Jim Fleck and Joe d'Cruz, on the other hand, who addressed some of the same important underlying issues quite differently in their recent widely-read Institute book *Canada Can Compete!*, might argue that adequate appeal to a strategy of market-driven development would entail a different perspective to the consultation processes Gillies invokes.

Moreover, while this volume is addressed largely to the business community, many other stakeholders in the process will be concerned to assure that a close consultative relationship between major business groups and government not become so cosy that other voices are not heard. The Institute's recent descriptive study entitled *The Social Policy Process* identified serious concern in the social policy community that business perspectives and economic issues already unduly dominate alternative views and a concern for basic social problems. So there might be many quarrels with the argument of this book.

But Professor Gillies notes that he is under no illusions that either his diagnosis or his prescription will prove universally palatable. What is clear, I think, is that Professor Gillies has again set out in an illuminating and provocative manner an argument and a challenge that deserves, and will receive, serious attention and some serious response.

Past Institute work – especially the Fleck-d'Cruz book noted above, but also others such as George, *Targetting High Growth Industry*, Pearson and Salembier, *Trade Employment, and Adjustment* and the forthcoming Stone, Moroz and Salembier, *Trade Protection, Adjustment, and Canadian Policy Interests*, as well as a long series of studies on competition policy and on regional policy – have addressed some of the substantive issues of economic strategy alluded to by Professor Gillies. But equally important are the problems of institutional structure and decision process addressed in our current program of research on problems of governability. As part of that program, we in the Institute are delighted to be able once again to carry Professor Gillies' work into the pubic debate surrounding a pressing and central question of the appropriate institutional structure to support decisions on economic and social policy. As this book implies, we may not have long to find that structure and make those decisions.

Rod Dobell
President

December 1986

Avant-propos

Dans une analyse fascinante qui s'adresse surtout, mais non pas exclusivement, au monde des affaires, le professeur Gillies soutient, à l'aide de puissants arguments, que pour faire face aux problèmes économiques actuels au Canada, il ne suffit pas simplement de forger un consensus sur certains objectifs nationaux. Il est également capital de créer des mécanismes qui nous permettent de bien discerner les véritables options stratégiques nécessaires à l'élaboration de politiques économiques nationales et qui, partant, sont susceptibles de nous contraindre à faire des choix, même si nous sommes pleinement conscients qu'ils risquent d'entraîner des coûts considérables, tant au plan économique que personnel, pour les particuliers, les entreprises, les industries et les régions.

Ce faisant, le professeur Gillies touche au défi structurel le plus fondamental que doive relever une démocratie parlementaire, dont l'électorat bien informé est de plus en plus sensible à toute atteinte aux droits et prérogatives établis. On retrouve dans son argumentation certaines des idées qu'il avait introduites dans un ouvrage antérieur – le plus grand best-seller de l'Institut – *Where Business Fails*.

Depuis un certain temps, le personnel de l'Institut tente de démontrer, en empruntant diverses avenues, qu'il est impossible de séparer les questions de politique économique des préoccupations de politique sociale d'abord en fonction de problèmes "d'efficacité", puis "d'équité", ou de les définir comme un simple "compromis". Nous prétendons que toute stratégie visant à "l'ouverture sur le marché" ou "l'ouverture sur le monde" doit nécessairement avoir pour équivalent l'assurance que la politique sociale sera fondée sur des bases solides; c'est-à-dire non pas de simples programmes d'ajustement au marché du travail, mais la garantie fondamentale d'une forme quelconque de sécurité économique. Par voie de conséquence, l'élaboration de toute politique nationale en réponse aux défis d'une économie mondiale en pleine évolution implique une analyse équilibrée et intégrée des problèmes sociaux et économiques.

Dans ce livre, le professeur Gillies analyse l'étendue probable des répercussions sociales de l'adaptation aux conditions économiques. Il propose certains mécanismes grâce auxquels le gouvernement fédéral pourrait néanmoins créer un consensus durable et prendre des décisions qui, au lieu de ne rien faire d'autre qu'obscurcir les problèmes, procèderaient d'un véritable choix parmi les options offertes; et il recommande vivement aux milieux d'affaires de participer à un tel processus. Il est sous-entendu que la poursuite de la sécurité économique par l'entremise du marché, plutôt que par le biais d'une intervention directe de l'État et de programmes de plus en plus compromis de transferts de revenus est pour le moins un objectif bien préférable. C'est au lecteur qu'il appartiendra de décider dans quelle mesure les mécanismes proposés par le professeur Gillies risquent d'accorder aux milieux d'affaires une trop grande influence dans le processus parlementaire, exécutif ou bureaucratique.

En particulier, le professeur Gillies suggère la création d'un comité mixte des Communes et du Sénat qui aurait pour mission de fixer des cibles et d'établir un consensus quant à la poursuite de certains objectifs nationaux. Mais, chose encore plus importante, il reconnaît que toute stratégie adoptée afin de relever les importants défis d'une économie mondiale en rapide évolution – économie qui place le Canada devant l'éventualité de changements néfastes et prolongés au chapitre de ses échanges commerciaux et qui tourne ainsi en dérision les stratégies nationales axées sur l'exploitation des ressources aux dépens des activités manufacturières (et de services?) – engendrera de graves problèmes d'ajustement, voire des coûts considérables pour les entreprises et les particuliers. Pour sortir de l'impasse sociale qui accompagne généralement une telle situation – c'est-à-dire, pour surmonter le dilemme de la paralysie au niveau du processus d'élaboration de la politique décrit par Schultze, Thurow et Olson ou ce que C.M. Drury a autrefois qualifié de tragédie des Communes (avec un C majuscule) – le professeur Gillies suggère l'instauration d'un réseau de forums sectoriels permanents. Tout son livre contient une exhortation à la participation des hommes d'affaires à de tels corps consultatifs, même si cette participation risque de les appeler un jour à subordonner les intérêts de leur entreprise ou de leur industrie à leur perception d'un intérêt national supérieur.

Bien entendu, il existe plusieurs objections possibles à ce genre d'argument. En suivant le raisonnement de Milton Friedman, on pourrait prétendre qu'en acceptant l'invitation du professeur Gillies les industriels manquent à leurs responsabilités envers leurs actionnaires ou bien se déchargent de leurs coûts en exploitant leurs employés ou en volant leur clientèle. D'un autre côté, des analystes comme Jim Fleck et Joe d'Cruz, qui ont traité certains des mêmes problèmes sous-jacents de façon très différente dans un récent livre beaucoup lu de l'Institut, *Canada Can Compete!*, soutiendraient que l'exhortation à une stratégie basée sur le jeu des mécanismes du marché serait efficace et mettrait les processus de consultation proposés par Gillies dans une tout autre perspective.

Par ailleurs, s'il est vrai que cet ouvrage s'adresse largement aux milieux d'affaires, un grand nombre d'autres dépositaires des enjeux de ce processus auront pour souci d'assurer que les rapports de consultation entre les principaux groupements d'affaires et le gouvernement ne deviennent si intimes qu'ils n'empêchent d'autres voix de se faire entendre. La récente étude descriptive de l'Institut intitulée *The Social Policy Process in Canada* a révélé qu'on s'inquiète grandement, dans le milieu de la politique sociale, de ce que le point de vue du monde des affaires et les questions économiques n'éclipsent déjà que trop d'autres optiques et la préoccupation concernant certains problèmes sociaux fondamentaux. Il est donc fort possible que l'argumentation de ce livre soulève de nombreuses polémiques.

Toutefois, comme le fait lui-même remarquer le professeur Gillies, il ne s'illusionne guère sur le fait que son diagnostic pas plus que sa prescription puissent être au goût de tout le monde. Ce qui est clair, à mon avis, c'est que le professeur Gillies a encore une fois exposé, d'une manière éclairante et stimulante, un argument et un défi qui méritent, et ne manqueront pas de susciter, beaucoup d'attention et de sérieuses réactions.

Les travaux de l'Institut – et notamment le livre de Fleck et d'Cruz mentionné ci-dessus, mais aussi d'autres ouvrages comme *Targeting High Growth Industry* de George, *Trade, Employment, and Adjustment* de Pearson et Salembier et la prochaine publication intitulée *Trade Protection, Adjustment, and Canadian Policy Interests* de Stone, Moroz et Salembier; de même qu'une longue série d'études sur la politique de concurrence et la politique régionale – ont traité de quelques-unes des questions centrales en matière de stratégie économique évoquées par le professeur Gillies. Tout aussi importants nous paraissent les problèmes de la structure institutionnelle et du processus décisionnel étudiés dans notre programme de recherche actuel sur les problèmes relatifs à la capacité de gouverner. Dans le cadre de ce programme, l'Institut est ravi d'être encore une fois en mesure d'introduire les travaux du professeur Gillies dans le débat public entourant la pressante question de savoir sur quelle structure institutionnelle il nous faut baser nos décisions en matière de politiques sociale et économique. Comme l'implique cet ouvrage, il est bien possible qu'il ne nous reste guère de temps pour trouver une telle structure et prendre de telles décisions.

Rod Dobell
Président

Décembre 1986

Preface

As the twentieth century draws toward a close, there is a widespread feeling among Canadians that the nation is facing economic problems that can be solved only through the application of new and different types of economic policies. As a consequence, proposals that were given only passing attention a few years ago – free trade with the United States (by the Economic Council of Canada and the Royal Commission on the Economic Union and Development Prospects for Canada), a technologically driven society (by the Science Council of Canada), a strategy based on natural resources (by the Department of Finance), among others – are now being widely discussed and advocated. Because most of the proposals, and the policies that flow from them, are mutually exclusive – that is, they all cannot be used simultaneously – the time is rapidly approaching when the government must choose the programs and policies it believes are most appropriate for guiding the development of the economy during the next few decades.

Making such a choice is not easy. It depends on much more than a rational analysis of the economic consequences of various actions. It can be made only within the context of a consensus about the goals for the economy and the perception that the costs and benefits that new policies inevitably create are shared equitably. Moreover, if a government – any government – cannot control the political implications of a choice, it is highly probable, regardless of the long-term economic consequences to the nation, that no choice will be made, and the *status quo* will prevail. Politics and process have become as important in economic decision making in Canada as economics.

One of the ways government can attempt to find a consensus about goals and policies, and thereby minimize political risks, is to seek advice on economic issues from various sectors of the economy, that is, by consulting. This is precisely what the government in Canada is now doing. Prime Minister Brian Mulroney has repeatedly made it clear that consultation has become part of the process of economic policy formation in Canada.

That consultation is taking place is, however, no guarantee that anything is happening. It is not consultation *per se* that is essential, but productive consultation that shapes decision making. Too often in the past in Canada consultative efforts have failed. Too often the process has done nothing more than create the illusion that something was being done when in reality no progress was being made. The consultative process appears to be still at this stage. Consequently, unless a way is found to dispel the perception that simply convening a meeting is equivalent to consultation, a great deal of energy and money will be wasted, expectations will not be fulfilled, and the consultative process will contribute little to the development of new economic policies for the nation. In short, the desired benefits from consultation will not occur without a much greater commitment to the process and radical changes in the way it takes place.

In this book, addressed primarily to business leaders, politicians, and public servants, but which I hope will be of interest to all Canadians, I

- speculate about the economic problems that changing international conditions appear to be creating
- argue that existing policies no longer work and must be replaced with new ones based on a new national consensus about economic goals
- review the ways business and government have worked together in the past to formulate economic strategies
- suggest ways the government can create a new consensus and the prospects for its success in doing so.

The common threads holding these rather disparate topics together are (1) a focus on process – how can policies be created? – rather than on substance – what should the policies be? – and (2) the relation of policies to business, their effect on business, and the role that business leaders should play in the development of new economic strategies for the nation.

Because most economic activity in the nation is still carried out in the private sector, policies designed to influence operations in that sector have the greatest chance of being successful when business leaders participate in their creation. It is imperative, therefore, that they play a major role in the consultative process. Indeed, it can be argued that the responsibility of senior business executives at this point in the twentieth century is as much to help formulate national goals and policies as it is to manage the internal operations of their firms.

No one should be sanguine that this is an easy responsibility for these private sector executives to meet. To do so successfully they must be able to accept that the national interest and the interest of individual firms may not always be the same. Moreover, they must realize that because economic security is now accepted by many as a right, allowing the market to work unfettered may not always be an adequate solution to all problems.

I am aware that many important matters are not exhaustively treated in this study; for example, there is little about the role of labour and other groups in the consultative process. But because the emphasis is on the processes of consultation and the creation of consensus, rather than on substance, their neglect does not, I believe, dramatically affect my conclusions. Also, I have not made specific reference to hundreds of books and articles, including the valuable studies of the Macdonald Commission, that contain detailed analyses of some of the material discussed in this study. Their omission is no indication of their importance; it is simply a consequence of time and space.

One final point. Predicting economic trends is always hazardous. During World War II the vast majority of economists forecast that there would be a major recession in the post-war period. None occurred. The predictions made only a decade ago by the Club of Rome are already seen to be distressingly incorrect. So it may well be that the changes which have taken place and are taking place in the world economy will not have a serious negative impact on Canada. Indeed, the nation may be entering a period of expansion and growth. No one knows for sure. Nevertheless, it is only prudent to develop effective methods for policy making simply to ensure, regardless of what may happen, that in the future Canada's economic potential is not restrained because of policy makers' inability to adjust policies as conditions change.

As usual I am indebted to many persons who have had the patience to discuss, debate, and disagree with me about the contents of this study. My colleagues in the Policy Area of the Faculty of Administrative Studies at York University—Peter Alley, Peter Bartha, Sanford Borins, Jerry Dermer, Joe Green, Dezso Horvath, I.A. Litvak, Murray Ross, Malcolm Taylor, James Waters, and Tom Wilson—are individually and collectively always stimulating and helpful. Through the years my thinking has been greatly influenced by Mark Baetz, William Cochrane, Jacques Courtois, Tom d'Aquino, Douglas Everett, George Gardiner, Bert and Irving Gerstein, Peter Gordon, Tom Hockin, David Leighton, John D. Leitch, Darcy McKeough, Paul Paré, William Neville, Gordon Robertson, and many others in the academic, government, and business communities. The usual caveat that they neither are responsible for nor agree with most of the positions expressed in this book is not noted as a formality; it is a fact. I also wish to thank Kim Baizer and Ian Danic for their outstanding work as my research assistants, Susan Sills for typing endless drafts of the manuscript, and Barbara Claire for running my office with efficiency and charm. I am also indebted to the Max Bell Business-Government Studies Programme and the Institute for Research on Public Policy for assistance in financing the study.

This book is a polemic in that I argue the case for reform. Most of the positions I advocate are controversial, and I am reconciled to the fact that it could not be otherwise. New policies and new approaches to policy making can never be established without controversy; the *status quo* is so much more comfortable than change.

"Words," John Maynard Keynes wrote, "ought to be a little wild for they are the assault of thoughts on the unthinking."[1] The words in this book are designed to be just that. I know that most readers will conclude that the proposals and recommendations are impractical, unnecessary, unworkable, unfeasible, and perhaps even non-Canadian. It matters not. My purpose is to stimulate discussion and debate about economic policy making and the consultative process—a debate that, as Canada prepares to enter the twenty-first century, cannot be avoided and should not be long postponed.

James Gillies
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Toronto, Canada
December 1986

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[1] John Maynard Keynes, in *New Statesman and Nation*, July 15, 1933.

The Author

James Gillies is Professor of Policy and Director of the Master of Public Administration Program in the Faculty of Administrative Studies, York University. He is also Director of the Max Bell Business-Government Studies Program, a Program supported by the Max Bell Foundation and initiated July 1st, 1981 in the Faculty of Administrative Studies at York University.

From 1951 to 1965 Dr. Gillies was on the Faculty of Management Studies at the University of California at Los Angeles. While in California he served as a consultant to a large number of organizations and as Vice-Chairman of the Redevelopment Agency of the City of Los Angeles. In 1965 he returned to Canada to establish the Faculty of Administrative Studies at York University where he remained as Dean and Vice-President until 1972. In that year he was elected as a Member of Parliament for the constituency of Don Valley in Toronto. He was finance and energy critic for the Progressive Conservative Party and served as Chairman of the Shadow Cabinet. In 1974 he was re-elected but in 1978 he announced that he would not run again. In the election of 1979 he campaigned at the national level with Mr. Clark and upon formation of the Clark government, Dr. Gillies was appointed senior policy adviser to the Prime Minister. In that capacity he worked on the evolution of energy and economic policy and attended the Tokyo summit as chief adviser to the Prime Minister. In July of 1980 Dr. Gillies returned to York University.

Professor Gillies is the author of several books – the most recent was published early in December 1981 and is entitled *Where Business Fails* – and more than 100 articles of a scholarly and/or popular nature. He wrote a weekly column for the Toronto Daily Star on economic matters and served as Chairman of the Economic Council of Ontario, as well as a member of the Hellyer

Task Force on Housing. He is the director of a number of Canadian corporations and has served throughout his career on the boards of more than twenty major corporations. His work has taken him throughout Europe, Africa, Asia and Latin America.

Dr. Gillies was born in Teeswater, Ontario. He is married and the father of four children – three boys and a girl.

Summary

If economic activity in Canada in the future is as strong as it has been in the past, Canadians have nothing to worry about. Since 1867 the gross national product has increased on the average of 40 per cent per decade – a strong performance by any measure – and the standard of living of Canadians is among the highest in the world. Much of this prosperity, some analysts would say most, has been generated through high levels of international economic activity, for Canada is, above all, a trading nation. In the early 1980s about 35 per cent of the gross national product was generated through trade.

There are, however, indications that unless new economic policies are adopted to meet changing conditions in the world economy, the historic strong patterns of trade, and therefore growth, that have characterized much of Canada's past will not be maintained. Canada's share of international trade is declining, and even more important its share of trade in manufactured products – by far the fastest growing segment of international trade – has also dropped. In fact, the only Canadian trade of significance in manufactured products is associated with the automobile industry in the United States, which since the mid 1970s has lost a substantial share of both international and domestic markets.

Traditionally, Canada's basic exports have been natural resources and agricultural products. Contrary to all predictions, the world supply of these products has, however, increased dramatically since the 1960s, primarily because of the application of new technologies to production in third-world countries. Perhaps more significant for Canada over the long run is the sharp decline in demand for natural resources. This decline has occurred not because manufacturing is less important in the

world – it is not – but because fewer resources are needed to produce the same volume of industrial output.

To understand the difficulty facing the Canadian economy at the end of the twentieth century, one need only consider that both China and India will be net exporters of food before the end of the 1980s, and in Japan industrial output in 1984 equivalent to that of 1973 could be produced with only 60 per cent as many raw materials. In 1985, for example, 50 to 100 pounds of fibreglass cable could carry the same number of telephone messages as 2000 pounds of copper.

As if all this were not troublesome enough, the U.S. economy – the market for 80 per cent of Canada's exports – is undergoing a radical restructuring that is certain to change the international trading patterns of that country, and the terms of trade have moved sharply against nations that trade primarily in natural resources. In 1985, raw material prices relative to the prices of industrial goods were the lowest in recorded history.

In short, Canada, as it prepares to enter the twenty-first century is between a rock and a hard place. It is a high-cost exporter of products, the demand for which is declining while the supply is increasing, primarily into a market undergoing major restructuring. This is not an enviable position for a country that depends on international trade for much of its prosperity.

Governments throughout the world have recognized the changes taking place in the international economy and have attempted to deal with them in various ways. In Canada the government is approaching the problems in the traditional Canadian way – through consultation. In his first Speech from the Throne Prime Minister Mulroney promised that consultation would be the foundation upon which new economic policies would be created. That he should choose the consultative approach is not astonishing: since Confederation Canadian governments have consulted so much on so many problems that the process has become a way of life for most Canadians.

If consultation in the future is the same as it has been in the past, there is little likelihood that it will lead to appropriate solutions for the very difficult economic problems facing the nation. But it need not be the same. With appropriate political will, in spite of almost universal skepticism about the prospects for success, new procedures can be developed and put into practice that can lead to a new consensus about economic goals for the nation and the policies necessary to achieve them.

As a consequence of the emphasis on consultation, leaders of Canadian business are now being asked by the government to contribute their views about the type of policies that should be developed to cope with the new international realities. Whether they like it or not, and even whether they know it or not, these business executives are being co-opted into helping develop a new national economic strategy.

Private sector executives should not automatically resist the opportunity to participate in the search for national goals on the simplistic and out-of-date grounds that industrial strategies do not work. Since World War II, the concept has evolved immensely, and in some countries carefully planned strategies have been enacted. Indeed, the implementation of appropriate industrial strategies in many countries is considered as important as the administration of effective monetary and fiscal policies. Certainly, much of Japan's amazing growth in the past quarter of a century can be attributed, at least in part, to the ability of the Japanese to set goals for their economy and implement the policies to achieve them. Although it would be foolish to believe that the processes successful in one culture could be transferred to another, it would be equally foolish not to learn as much as possible from the experiences of other nations.

The conventional objections of business persons and many economists to the development of economic goals and strategies are (1) that they lead to more government intervention in the economy, (2) that they are unnecessary because the market allocates resources effectively, and (3) that they cannot be developed and implemented in a pluralistic, democratic country. The reality, however, is that hundreds of uncoordinated government programs already exist. It is difficult to see how replacing or remodeling them so they supplement one another to achieve certain goals would lead to greater government participation in the private sector. It should lead to less. Moreover, by rationalizing existing government programs that prevent the market from working effectively, such as quotas, tariffs, subsidies, and bail-outs, a properly constructed strategy would help the market work better.

The final objection is, however, a real and very practical one. It is difficult, but not impossible as Canada's history demonstrates, in a pluralistic, democratic society to develop a consensus about economic goals.

For more than a century Canada has had a form of economic and industrial strategy based on three principles: (1) the importation of capital for the development of natural resources, (2) the encouragement of exports of raw and semi-processed materials and agricultural products, and (3) the development of a relatively small industrial sector. This strategy has been supported by policies designed to ensure free access for Canadian raw materials and agricultural products into as many markets as possible and to avoid any measures that would increase the costs of production of these goods. It was given credence, although not necessarily endorsement, through the work of academics such as the University of Toronto historian Harold Innis and Queen's University economist W.A. Macintosh and survived as the underlying force in economic policy making in Canada until the budget of Allan MacEachen in 1981.

The fallout from the strategy and the policies designed to reinforce it have been prodigious. First and foremost, Canada has never became a mature industrial nation in the sense that it is able to export enough goods and services to pay for its imports and to service its international debt. From 1953 to 1982, in only four years was there a surplus in the current account of the balance of payments. The Canadian people have prospered by selling assets, which, of course, has resulted in extensive foreign ownership of various parts of the economy – more than in any other country in the world.

Second, there has been little integration of the resource industries with the rest of the economy. Developing an industrial sector to serve the needs of the resource industry would have required tariff protection for the new suppliers, but such protection would have been contrary to the fundamental principles of the strategy. It would have raised, at least in the short-run, the costs of production of raw materials.

Third, manufacturing, primarily the production of consumer goods, has been protected and production costs have been high in the absence of economies of scale and competition to keep them down.

From time to time in the post-war period, governments attempted to deal with the consequences of the strategy with policies ranging from regulation to expropriation – the Foreign Investment Review Agency and the National Energy Policy, for example – and with bilateral sector trade agreements, such as the Auto Pact. But, by and large, these were minor policies for major problems. They did not deal with the fundamental characteristics of the Canadian economy, which were created by the strategy established in the nineteenth century and followed during most of the twentieth.

After the election of Pierre Trudeau in 1968, a debate began about the appropriate approach to economic policy making in Canada. Should there be a specific economic strategy as opposed to continued reliance on the traditional patterns? The debate eventually led not to any strategy but to the greatest amount of consultation among sectors of the economy in Canadian history.

Although the consultation was not particularly effective, it did provide insights on how consultation must take place to accomplish its goals. It also made clear that if Canada is to prosper in the twenty-first century, the country must develop new policies based on new goals.

How is this to be done? How can economic goals sufficiently specific to permit the formulation of an integrated set of economic policies be developed in a complex, pluralistic federal state such as Canada? Obviously, it is a task for government, but in this country of many governments, which one?

In the final analysis, the responsibility for creating a consensus about economic goals and policies belongs to the federal government. Only the prime minister has sufficient authority and credibility to launch an effective consensus-creating process in the nation, and only the legislative branch of the federal government has the capacity to create a consensus.

In a pluralistic, federal, democratic nation only a joint committee of the House of Commons and the Senate can create a consensus. Only such a permanent, credible, effective committee can do the task by continually hearing and reconciling the views of provincial leaders, business executives, special interest groups, labour representatives, cabinet ministers, senior public servants, economists, and anyone else who has a contribution to make. Although only the executive has the responsibility of making policy, such a committee can create a consensus about economic goals for the nation.

Once a consensus is created, integrated policies have to be developed so that the goals may be reached. This is not an easy task. Everyone may support a national goal to increase productivity of manufacturing, until they realize that the policies to reach the goal require eliminating tariffs, quotas, subsidies, bail-outs, and so forth. In a democracy, people who wish to maintain the *status quo* are often able to do so.

The function of the executive branch of government is to create the policies essential for fulfilling national goals. Such policies will have major effects throughout the economy: there will be some winners and some very large losers. Unless a method can be found to distribute the gains and losses equitably, it is unlikely that the policies can be carried out. It is essential, therefore, that the current decision-making processes of the executive branch of the federal government be supplemented by the creation of permanent sector forums for the purpose of recommending to the government how the costs of change should be shared. Unless this is done, unless there is a relatively clear measure of gains and losses and an understanding of how they will be shared, policies will not get through the political process. It is, of course, always the task of governments to make choices, but in this critical period when changes can be vast and costs to some groups devastating – as much as wiping out entire industries – the involvement of the people most directly affected, or their representatives, is essential.

Business leaders will not find it difficult to participate in the consensus-creating process. They will, however, find it stressful to be active in forums where they must consider the implications of policies that might eventually end the current nature of their operations. Some will not be able to do it. Many, moreover, will be convinced that it is unnecessary, that the market will work; many believe that when everyone pursues their own interests, they are, by definition, pursuing the interests of the country.

In spite of the problems, change must take place. The *status quo* is not an option for Canada. The world has changed. The driving forces for prosperity, as West Germany and Japan have demonstrated, are international, not domestic. Canada cannot achieve its potential by relying on the application of traditional, domestic Keynesian policies and accepting the old, static concept of competitive advantage based on resources and location. In the latter part of the twentieth century, international competitive advantages – and therefore domestic prosperity – are created by policies, not geography.

As Canada prepares for the twenty-first century it needs new economic policies based on goals appropriate for a new era. Putting in place a system for establishing goals and the policies to fulfil them, unexciting as it may be, is, therefore, the first essential step in preparing for a prosperous future.

Canada is involved in a race between political will and institutional inertia and international change. At the moment international change is winning, and the Canadian standard of living is falling. If Canada's future is to be as prosperous as its past, if Canada is not to be forever in a stage of immature development, the appropriate processes for making economic policy in a period of rapid change must be adopted and activated. The time remaining to ensure that Canada's destiny is fulfilled in the twenty-first century is, indeed, short.

Abrégé

Si le Canada connaît dans l'avenir une activité économique aussi soutenue que dans le passé, les Canadiens n'ont aucun souci à se faire quant à leur bien-être. Depuis 1867, le produit national brut s'est accru au rythme moyen de 40 p. 100 par décennie, une performance digne de mention qui a permis aux Canadiens de jouir aujourd'hui d'un niveau de vie parmi les plus élevés au monde. Une telle postérité est dûe en grande partie – ou totalement, au dire de certains spécialistes – à l'importance du commerce extérieur au Canada, dont la vocation commerciale est éminente. Au début des années 1980, les échanges commerciaux du Canada avec ses partenaires généraient en effet environ 35 p. 100 du produit national brut.

Toutefois, certains indicateurs laissent entrevoir que le Canada pourrait éprouver des difficultés à maintenir sa position commerciale historique, et donc sa croissance, à moins qu'il n'adapte sa politique économique à l'évolution actuelle de l'économie mondiale. La part du Canada dans le bilan des échanges commerciaux internationaux est actuellement en régression et, fait peut-être encore plus significatif, le Canada est en perte de vitesse sur le plan du commerce des produits manufacturés, secteur qui connaît, et de loin, la plus forte progression sur les marchés internationaux. En fait, les seuls échanges commerciaux d'importance de produits manufacturés du Canada sont liés à l'industrie automobile américaine qui, depuis le milieu des années 1970, a perdu passablement de terrain tant sur les marchés internationaux que sur le marché intérieur.

Le Canada a toujours basé ses exportations sur ses richesses naturelles et sur ses produits agricoles. Or, contrairement à toutes les prévisions, l'offre mondiale de ces produits a connu une augmentation spectaculaire depuis les années 1960, principalement en raison de l'implantation de nouvelles techniques de production dans les pays du tiers-monde. Autre élément peut-être encore plus important à long terme pour le Canada, la demande de matières premières a connu une chute marquée, attribuable non à la diminution de l'activité de fabrication dans le monde, mais à la quantité moindre de produits non ouvrés entrant aujourd'hui dans la composition des biens manufacturés.

Pour bien saisir les difficultés qui attendent le Canada en cette fin du XX^{e} siècle, il faut se rendre compte que la Chine et l'Inde deviendront des pays exportateurs nets de produits alimentaires d'ici la fin des années 1980 et que le Japon pouvait produire en 1984 la même quantité de biens ouvrés qu'en 1973 avec seulement 60 p. 100 des matières premières qui étaient alors utilisées. En 1985, on pouvait par ailleurs acheminer autant de messages téléphoniques avec des câbles en fibre de verre totalisant de 50 à 100 livres qu'avec des câbles en cuivre pesant 2 000 livres.

Comme si ces sujets d'inquiétude ne suffisaient pas, l'économie américaine, qui constitue le marché de destination de 80 p. 100 des exportations canadiennes, fait actuellement l'objet d'une restructuration en profondeur qui modifiera certainement la physionomie des échanges américains; en outre, la conjoncture économique internationale est désormais défavorable aux pays dont les exportations sont principalement constituées de matières premières. En 1985, les prix des produits non ouvrés sont tombés à un plancher historique comparativement aux prix des biens manufacturés.

Au seuil du XXI^{e} siècle, le Canada se trouve en quelque sorte pris entre l'arbre et l'écorce. Exportateur de produits à prix forts, il doit composer avec une demande en régression et une offre croissante, sur un marché principal en pleine restructuration. Pour un pays dont la prospérité économique dépend largement du commerce international, une telle situation a de quoi inquiéter.

Nombreux sont les pays qui, reconnaissant les changements qui bouleversent actuellement l'économie internationale, ont tenté d'y faire face en adoptant diverses mesures. Le Canada semble, quant à lui, vouloir aborder cette situation comme il l'a toujours fait, par la voie de la consultation. Lors de son premier discours du Trône, le premier ministre Mulroney s'est engagé à fonder la nouvelle politique économique de son gouvernement sur la consultation. Pareille démarche n'est pas surprenante : depuis 1867, les gouvernements qui se sont succédé à la tête du Canada ont consulté la population sur une telle quantité de problèmes que ce processus fait maintenant partie intégrante des moeurs du pays.

Si la consultation annoncée s'inspire de l'expérience du passé, il est peu probable qu'elle aboutisse à la définition de solutions appropriées aux problèmes économiques épineux que nous devons actuellement affronter. Mais est-il besoin de se tourner obligatoirement vers le passé? À condition d'avoir la volonté politique nécessaire et en dépit du scepticisme général à l'égard des chances de succès de ce mécanisme, nous pouvons élaborer et appliquer de nouvelles règles qui pourront refaire le consensus sur les objectifs économiques du pays et sur la politique à mettre en oeuvre pour assurer leur réalisation.

Dans le cadre de ce processus de consultation, le gouvernement sollicite actuellement le point de vue des chefs de file du monde des affaires au Canada pour édifier une politique adaptée au nouvel ordre économique international. Qu'ils le veuillent ou non et qu'ils le sachent ou non, ces dirigeants se trouvent actuellement investis du mandat d'aider à mettre au point une nouvelle stratégie économique nationale.

Le monde des affaires n'a pas intérêt à se soustraire à une telle responsabilité en invoquant, prétexte simpliste et dépassé, l'inefficacité de toute stratégie commerciale. Depuis la fin de la Deuxième Guerre mondiale, la notion de stratégie a évolué considérablement, et certains pays ont adopté des mesures soigneusement mises au point. De nombreux pays accordent autant d'importance à la mise en oeuvre d'une stratégie industrielle appropriée qu'à l'administration d'une politique monétaire et budgétaire efficace. Il ne fait par ailleurs aucun doute que la croissance extraordinaire du Japon au cours des vingt-cinq dernières années est en grande partie attribuable à l'aptitude dont ont fait preuve ses dirigeants à établir des objectifs économiques et à appliquer les mesures destinées à en assurer la réalisation. S'il serait insensé de croire que de telles mesures peuvent s'exporter facilement d'un pays ou d'une culture à l'autre, il serait tout aussi insensé de refuser de tirer avantage des expériences menées par d'autres pays.

Les objections classiques soulevées par les représentants du monde des affaires et bon nombre d'économistes au chapitre de l'élaboration d'objectifs et de stratégies économiques sont les suivantes : 1) ils contribuent à accentuer la mainmise de l'État sur l'économie, 2) ils sont inutiles, puisque le marché permet de répartir les ressources efficacement et 3) ils sont impossibles à mettre en oeuvre et à appliquer dans un pays doté d'une démocratie de type pluraliste. Il demeure néanmoins que l'État dispose déjà de centaines de programmes mal intégrés. Dans ce contexte, il est difficile d'imaginer que leur substitution ou leur modification de façon à en assurer la rationalisation et ainsi à permettre la réalisation de certains objectifs précis puisse accroître l'intervention de l'État dans les affaires du secteur privé. Tout au contraire, un tel processus devrait contribuer à réduire le poids de l'État. En outre, en rationalisant les interventions qui constituent une entrave aux forces du marché (contingentements, tarifs douaniers, subventions et cautionnements d'entreprise en difficulté), l'établissement minutieux d'une stratégie pourrait faciliter le libre fonctionnement du marché.

La dernière objection des détracteurs de ce genre de mécanisme n'est pas sans fondement, mais il est néanmoins possible, comme en fait foi l'histoire du Canada, d'en arriver à un consensus sur les objectifs économiques dans un pays doté d'une démocratie pluraliste.

Depuis plus d'un siècle, le Canada a basé sa politique économique et industrielle sur les trois principes suivants : (1) l'importation de capitaux aux fins d'exploitation des richesses naturelles, (2) la stimulation des exportations de biens non ouvrés ou semi-finis et de produits agricoles et (3) le développement d'un secteur industriel modeste. Cette politique était assortie de mesures visant à assurer l'accessibilité du plus grand nombre de marchés possible aux produits bruts et agricoles canadiens ainsi qu'à éviter toute intervention risquant d'entraîner une augmentation des coûts de production des produits destinés à l'exportation. Pareille stratégie fut accréditée, sans être nécessairement entérinée, par les travaux d'universitaires reconnus, tels Harold Innis, historien à l'Université de Toronto, et W.A. Macintosh, économiste à l'Université Queen's, et a constitué le fondement de la politique économique du Canada jusqu'à la présentation du budget MacEachen de 1981.

Les conséquences de cette politique et des mesures destinées à en assurer la mise en oeuvre ont été innombrables. D'abord et avant tout, le Canada n'est jamais parvenu à se hisser au rang des pays industriels adultes, qui arrivent à exporter des biens et services en quantité suffisante pour payer leurs importations et rembourser leur dette internationale. De 1953 à 1982, le Canada n'a enregistré un excédent annuel au titre de sa balance des paiements qu'à quatre occasions. Le Canada doit sa prospérité à la mise en vente de son patrimoine, qui a entraîné une mainmise étrangère considérable sur divers secteurs économiques, situation qu'on ne retrouve dans aucun pays au monde à un degré aussi prononcé.

En deuxième lieu, la stratégie commerciale du Canada n'a pas permis d'intégrer, même modestement, le secteur des richesses naturelles au reste de l'économie. Le développement d'un secteur industriel apte à répondre aux besoins du secteur des richesses naturelles aurait nécessité l'adoption de mesures tarifaires destinées à protéger les nouveaux fournisseurs, ce qui aurait été contraire aux principes fondamentaux de cette stratégie, en raison de la hausse, du moins à court terme, des coûts de production des matières premières qui en aurait résulté.

Enfin, la protection d'un secteur manufacturier axé principalement sur la fabrication de biens de consommation a favorisé le maintien de coûts de production élevés, faute de compétition et de possibilité de réaliser des économies d'échelle.

Périodiquement depuis l'après-guerre, les gouvernements ont tenté de remédier aux conséquences malheureuses de cette stratégie par l'adoption de diverses mesures, allant de la réglementation à la nationalisation (la création de l'Agence d'examen de l'investissement étranger et la mise en oeuvre du Programme énergétique national en sont des exemples), ainsi que par la conclusion d'accords commerciaux bilatéraux, tels que le pacte de l'automobile. Devant l'ampleur des problèmes à régler, il s'agissait là de moyens nettement insuffisants, ne visant pas à s'attaquer au caractère fondamental de l'économie canadienne, dicté par une stratégie élaborée au XIX^{e} siècle et appliquée presque tout au long du XX^{e} siècle.

L'élection de Pierre Trudeau en 1968 devait précéder l'amorce d'un débat sur la démarche à privilégier en matière de politique économique au Canada; devait-on se doter d'une stratégie économique bien définie ou continuer de s'en remettre aux modèles traditionnels? Ce débat s'est soldé non par la mise au point d'une stratégie, mais par la plus importante consultation intersectorielle de l'histoire du Canada. Si cette consultation ne fut pas particulièrement fructueuse, elle aura quand même permis de dégager les conditions dans lesquelles son exercice a le plus de chances de parvenir aux objectifs qui lui sont fixés. Ce débat aura également permis de dégager que la prospérité du Canada au XXI^{e} siècle dépend de l'élaboration de moyens d'action fondés sur de nouveaux objectifs.

Mais la question qui demeure est de savoir comment s'y prendre pour opérer ce virage. Comment établir, dans un État fédéral pluraliste comme le Canada, des objectifs économiques suffisamment précis pour autoriser la formulation d'un train de mesures économiques cohérentes? Si cette responsabilité incombe au gouvernement, lequel des nombreux gouvernements du Canada doit en être le maître d'oeuvre?

En dernière analyse, la responsabilité de dégager un consensus relativement aux objectifs et aux moyens d'action économiques revient au gouvernement fédéral. En effet, seul le premier ministre du Canada détient l'autorité et la crédibilité nécessaires pour amorcer pareil processus à l'échelle du pays, et seul le pouvoir législatif fédéral est véritablement apte à dégager un consensus.

Dans un État fédéral pluraliste et démocratique, seul un comité conjoint formé de membres de la Chambre des communes et du Sénat peuvent réunir les conditions essentielles à la création d'un consensus. Seul un tel comité peut offrir les qualités de permanence, de crédibilité et d'efficacité nécessaires pour entendre et réconcilier sur une base continue les points de vue des provinces, du monde des affaires, des groupes de pression, des syndicats, des ministres du cabinet, des hauts fonctionnaires, des économistes ainsi que de tous ceux qui peuvent apporter une contribution à ce chapitre. S'il appartient au pouvoir exécutif de déterminer les moyens d'action à prendre, un tel comité peut néanmoins dégager un consensus en matière d'objectifs économiques nationaux.

Une fois ce consensus établi, il faudra définir un ensemble de mesures cohérentes pour assurer la réalisation des objectifs fixés. S'il est relativement facile de s'entendre sur l'augmentation de la productivité industrielle, qu'arrivera-t-il lorsque l'on se rendra compte que la réalisation de cet objectif passe par l'élimination des tarifs douaniers, des contingentements, des subventions, des cautionnements d'entreprises? Dans un régime démocratique, les partisans du *statu quo* ont souvent le dernier mot.

Le mandat du pouvoir exécutif est de faire office d'architecte des mesures essentielles à la réalisation des objectifs de la nation. L'application de telles mesures à l'économie du pays aura des répercussions considérables sur les différents intervenants économiques, dont quelques-uns sortiront gagnants, et beaucoup d'autres perdants. À moins que l'on ne puisse parvenir à répartir les gains et les pertes de façon équitable, il est peu probable que l'on arrive à appliquer les mesures ainsi définies. Il est donc essentiel que le pouvoir exécutif, qui constitue actuellement l'organe décisionnel, partage cette responsabilité avec des tribunes sectorielles permanentes, dont le mandat consisterait à formuler des recommandations sur le mode de répartition du coût des changements envisagés. À défaut d'y parvenir et de brosser un tableau suffisamment précis des gains et des pertes prévus et de bien définir la façon dont ils seront partagés, les mesures envisagées seront bloquées par le processus politique. S'il incombe aux gouvernements de faire les choix qui s'imposent, l'importance des changements et des coûts qui en découleraient pour certains secteurs d'activité – qui pourraient même se voir carrément éliminés – exige que soit sollicitée la participation de ceux qui risquent d'être les plus durement touchés.

Si les représentants du monde des affaires n'auront probablement aucune difficulté à prendre part au processus visant à dégager un consensus, il leur sera vraisemblablement moins facile de jouer un rôle actif dans des forums appelés à étudier les conséquences de mesures qui pourraient mettre un terme au mode d'exploitation de leurs entreprises respectives. Certains de ces dirigeants seront incapables de s'acquitter d'une telle responsabilité, tandis que d'autres demeureront convaincus de l'inutilité de ces mesures, invoquant l'immanence des forces du marché. Enfin, bon nombre continueront de croire que le principe du chacun pour soi est celui qui garantit encore le mieux les intérêts du pays.

Malgré ces écueils, un changement s'impose. Le *statu quo* n'est plus une option valable pour le Canada. Le monde a évolué. Le moteur de la prospérité, comme l'expérience de l'Allemagne de l'Ouest et du Japon l'a démontré, n'est plus national, mais international. Le Canada ne peut espérer exploiter pleinement son potentiel en s'en remettant aux recettes traditionnelles et aux conceptions keynésiennes, ni en continuant de fonder sa compétitivité sur ses seules richesses naturelles et sur sa situation géographique. En cette fin de siècle, la compétitivité d'un pays sur la scène internationale dépend beaucoup plus de la politique dont il se dote que de considérations géographiques.

A l'approche du XXI^{e} siècle, le Canada doit adopter des mesures économiques fondées sur des objectifs qui correspondent à l'époque actuelle. La mise sur pied de mécanismes visant à définir ces objectifs et à élaborer les mesures qui en assureront la réalisation, constitue une tâche ingrate peut-être, mais néanmoins essentielle à la préparation d'un avenir prospère.

Le Canada est actuellement engagé dans une course dont les principaux éléments sont sa volonté politique, l'inertie de ses institutions et l'évolution de la conjoncture internationale. Actuellement, la balance penche en faveur de la conjoncture internationale, et, en conséquence, le niveau de vie des Canadiens est à la baisse. Pour s'assurer que le Canada connaîtra un avenir aussi prospère que son passé, pour s'assurer qu'il accédera à la maturité économique, il importe d'adopter et de mettre en branle les mécanismes qui vont permettre de le doter d'une nouvelle politique économique adaptée à la période d'évolution rapide que nous traversons. Mais le temps presse.

Pour faire en sorte que les diverses promesses dont le Canada est porteur soient remplies au XXI^{e} siècle, nous devrons agir avec diligence.

Chapter 1:

Consultation: The Canadian Way?

The Canadian Economy: A Troubled Outlook?

If future economic conditions in Canada are a rerun of the past, Canadians do not have much to worry about. Since 1867, economic progress in Canada has been remarkable. In real terms output has increased on the average about 40 per cent per decade, and in 1980 Canada's gross national product (GNP) of US$253 billion ranked seventh in the Organization for Economic Cooperation and Development (OECD), behind the United States, Japan, West Germany, France, Great Britain, and Italy. Canadians have one of the highest standards of living in the world, and it has been achieved by 25 million people, less than one half of 1 per cent of the world's population, living in the inhospitable half of the North American continent. Without question, "the emergence of a group of small relatively poor British colonies in the nineteenth century to membership in the select group of seven industrialized countries in the late twentieth century is a success story by any standards."[1]

In the early 1980s, however, there was evidence that this historic performance might not be maintained through the end of the century. The level of unemployment in Canada was among the highest of the OECD countries; inflation was setting records; interest rates had never been so high; and disparities in regional and personal incomes, in spite of many policies to reduce them, had not changed appreciably over the years. Canada actually experienced a decline in real gross national product,[2] the largest of any industrialized nation, and the OECD ranked Canada with Belgium as the industrialized country having the greatest economic problems.

Unpalatable as such statistics may be, it is important to remember that Canada was not the only nation having economic difficulties in the early 1980s. During this period most countries in the Western industrialized world had zero, or almost zero, real economic growth. Great Britain's industrial production in 1981, for example, was at the same level as in 1971. The West German economy, which performed spectacularly during the 1960s and early 1970s, had no real growth in 1980 and 1981; and even Japan, everyone's model of outstanding economic performance, had low growth in 1980. Outside the Western industrialized world, 35 countries were unable to pay the interest, let alone reduce the principal on their foreign loans. At the beginning of the 1980s, it was a zero-growth world. Excess capacity was everywhere, and the volume of international trade declined for the first time since the end of World War II.[3] Economic problems were global problems.

Under these circumstances, why is there so much concern about the future of the Canadian economy? Canada's economy is very open; that is, a high proportion of economic activity in Canada is generated through world trade. When international trade declines, therefore, the drop in economic activity in Canada is more than proportionate. Clearly, part of the poor performance of the early 1980s can be attributed to the downturn in the business cycle, caused primarily by the incredible rise in the price of oil and the decline in international trade. It was reasonable to assume that as the world economy recovered, so would the Canadian – and to some degree this is exactly what happened.

Although comforting (and probably correct), such an explanation glosses over other developments in the Canadian and, more particularly, the world economies since the end of World War II, developments that may be more important than cyclical factors in determining the strength of the Canadian economy during the rest of the century. For example, in spite of prodigious capital imports, Canada is the only major country that has not developed as a mature industrial nation. In only four years between 1953 and 1982 was Canada able to export sufficient goods and services to pay for its imports and to service the interest on its foreign debt. (See Table 1.1.) Moreover, Canada is a trading country and therefore must offer its goods and services in world markets at competitive prices, which are made possible, in part, by high levels of productivity. Yet, from 1973 to 1981, Canada's average increase in output per unit of labour input was the lowest of any industrialized country in the world. In fact, between 1974 and 1976 in 19 of 22 industries studied by the Economic Council of Canada, productivity growth was slower than it was from 1958 to 1973.[4]

In addition, during the late 1970s and the early 1980s, the federal government deficit grew enormously; the deficit for the fiscal year 1983-1984 was actually greater than the total budgeted just nine years earlier.[5] Finally, between 1980 and 1985 the unemployment rate hovered around 10 per cent, in spite of a variety of government programs designed to create jobs.

TABLE 1.1
Canada's Current Account Balance, Selected Years, 1953-1982 (Millions of Dollars)

Year	Balance
1953	– 448
1955	– 687
1957	– 1451
1960	– 1233
1965	– 1130
1970	+ 1106
1971	+ 306
1973	+ 108
1975	– 4575
1979	– 4840
1980	– 1114
1981	– 6065
1982	+ 2665

Sources: *Bank of Canada Review*, January 1974, for years 1953-1971; *Bank of Canada Review*, December 1985, for years 1973-1982.

Worrisome as these primarily domestic economic problems may be, they are insignificant compared with the difficulties Canada may face as a consequence of developments in world trade since the early 1960s. Whether or not growth in the Canadian economy is always "export led" is a matter of some dispute, but there is no debate that throughout its entire history Canada's prosperity has been closely tied to international trade. In recent years about 35 per cent of Canada's gross national product has been generated through trade, and approximately 80 per cent of that trade is with the United States. Therefore, what happens in world markets, and particularly what happens in the U.S. economy, has a direct and immediate impact on Canada – and great changes are occurring in both.

The New International Patterns

The world economy is, of course, always changing. At the time of Queen Victoria's Diamond Jubilee in 1897, Great Britain was the richest, most powerful country in the world. In 1977, only 80 years later, it was one of the poorer countries in the European Common Market. Change is constant, and how well countries adjust to change – how well they manage transitions – to a large extent determines their economic performance in succeeding decades.

At the end of World War II, the United States was the dominant economic force in the world. It produced 60 per cent of the world's output of manufactured products, and its GNP was 61 per cent of those of all OECD countries. By 1980, however, with the complete recovery of West Germany and Japan and the growth of the newly industrialized countries, the U.S. share of the industrialized world's production was down to about 35 per cent.[6]

The most significant development in post-war trade and production was not, as sometimes suggested, the growth in output in Hong Kong, Taiwan, Singapore, Brazil, Spain, and South Korea of footware, toys, basic electronic parts, television sets, and textiles; this was simply a continuation of the use of low-cost labour. The most astonishing development was the production, at competitive prices, in third-world and developing countries of goods traditionally produced by the Western industrialized nations, goods that had provided their economic foundation.

By the end of the 1950s shipbuilding had moved from the United States, Great Britain, and Norway to Japan. By the early 1960s Brazil was the eighth largest steel producer in the world, and developing countries were together producing about 18 per cent of the world's supply. In the late 1970s developing countries with indigenous oil supplies were using their own feed stocks for their own refineries to produce ethylene, methane, and fertilizer. Petrochemical plants began to dominate the skylines of third-world countries as much as those of the older, developed nations. In 1980, 85 countries had assembly lines for car production, and Japan was the largest producer of automobiles in the world.[7]

In 1950, Pusan, South Korea, was a modest fishing center; in 1983 it was the site of the largest, most modern shipbuilding yard in the world. In 1960 South Korea produced almost no steel and no cars; in 1984 it was a force in both markets. And what has happened in South Korea has happened in a host of countries. In 1975 in Nairobi, at a meeting of the United Nations Conference on Trade and Development (UNCTAD – the countries that belong to the United Nations and are not members of OECD), the members adopted the goal of having 20 per cent of the world's manufacturing within their boundaries by the year 2000. They will not only achieve it, they will surpass it.

The pattern of world production and related patterns of trade changed because the Western industrialized countries lost the competitive advantage in manufacturing mass-produced goods, which they had held for almost two centuries.[8] In the modern world of multinational firms, of almost instantaneous transmission of information, and of rapid modes of transport, virtually any product can be produced anywhere; goods, therefore, are produced in the most cost-efficient locations. In the latter part of the twentieth century, these are relatively low-wage countries with modern plants that utilize the most recent technology. As a result the post-war period has been characterized by a dramatic shift in the location of production of goods with a consequent increase not only in the volume of international trade but in its composition: trade in manufactured goods has grown substantially faster than trade in raw materials and agricultural products. (See Table 1.2.)

Unfortunately, during the unprecedented economic expansion of the post-war era, not only did Canada's share of total world trade decline, but Canadian exporters failed to maintain their share of trade in manufactured products. (See Table 1.3.) In 1973, for example, with the exception of trade under the Auto Pact, highly manufactured products (that is, end products) accounted for only 12 per cent of all Canadian exports, and the figure was the same a decade later – a similar dollar volume as for fish and farm products.

A detailed analysis of Canada's international trading patterns indicates that since the early 1960s the composition of Canadian trade has changed relatively little. Consequently, an increasing proportion of Canadian exports, again with the possible exception of automobiles, is of products for which the rate of growth of world demand is declining. Even more alarming, the share of the world market held by Canadian producers in these markets is dropping. By 1980 even telecommunications, the star of Canadian manufacturing exports, was losing world market share to Japan. During the 1970s Canada lost market share in most high-growth and medium-growth areas and in most markets for high-technology products. In contrast, Japan increased its market share in the high-growth, high-technology markets, the very ones in which Canada lost.[9]

TABLE 1.2
Changes in the Pattern of World Exports
Selected Years, 1958-1979

Year	Total (million U.S.$)	Food and Raw Materials (million U.S.$)	Per Cent	Manufactured Goods (million U.S.$)	Per Cent
1958	96 000	33 560	35	49 850	52
1963	135 400	44 140	33	75 570	56
1970	279 800	66 740	24	182 320	65
1971	312 300	70 740	23	204 590	66
1973	517 300	123 420	24	330 550	64
1975	788 400	153 920	20	466 930	59
1977	1 016 200	192 340	19	611 590	60
1979	1 488 400	270 370	18	897 450	60

Source: Calculated from United Nations, *1980 Yearbook of International Trade Statistics*, vol. 1, Special Table: I.

Although some Canadian industries are highly competitive – steel, wire and cable, fine paper, some chemicals and synthetic fibres, telecommunications equipment – Canadian manufacturers by and large seem incapable of successfully competing in world markets. Even the automobile industry, with its special situation created by the Auto Pact, has not been able to withstand the challenge from cars produced outside the country. Between 1976 and 1981, North American automobile producers lost not only world market share but a large share of the domestic market, which they did not recover until the government protected the industry by imposing quotas on imports.

The absence of international competitiveness in the Canadian manufacturing industry might be dismissed as relatively unimportant because Canada's competitive advantage in world trade has always been in natural resources. Even in this sector, however, problems are developing. High levels of worldwide competition in the sale of manufactured products are causing producers to search for less expensive materials. Not as much steel is being used in cars, newsprint is thinner, and substitutes are being found for zinc and copper. Perhaps more important, Canadian producers are being challenged by suppliers from other countries who are placing products on the market at lower prices. New Caledonia is producing nickel, New Guinea is producing copper, Chile and Sweden are exporting newsprint, and Australia is a dominant supplier of coal and iron ore to the Pacific Rim countries. It is expected that both China and India will be net exporters of food before the end of the 1980s.

TABLE 1.3
Canada's Share of World Trade and of Manufactured Exports
Selected Years, 1960-1980 (per cent)

Year	Canada's Share of Total World Trade	Canada's Share of Manufactured Exports
1960	4.24	
1970	4.57	2.8
1975	3.74	1.9
1979	3.28	1.8
1980	3.05	1.7

Sources: Calculated from United Nations, *Handbook of International Trade and Development Statistics 1984*, Supplement Tables 1.1, 1.2; United Nations, *Monthly Bulletin of Statistics*, September 1985, Special Table: B.

But does it matter that Canada is losing its share in world markets? As long as the total volume of world trade increases, it may be argued, a smaller share can still be sufficient to ensure Canadian prosperity. The answer, of course, is that it does matter. The volume of international trade did not increase every year in the early 1980s, and the rapid shifts in the composition of trade that are taking place put any nation that is losing its competitive position – and that is what losing market share means – in a very vulnerable position. For a trading nation, losing market share is a serious matter.

Given that the terms of trade are changing (in 1985 the price of raw materials vis-à-vis the price of manufactured goods and services was the lowest in recorded history), the advantage in minerals is declining, the competition in agricultural, energy, and forest products is increasing, and a larger share of world trade is in manufactured products, the outlook for the Canadian economy, based as it is on international trade, could be considered bleak.

There is nothing particularly new about this analysis. As long ago as 1967, the Honourable Mitchell Sharp, then minister of trade and commerce and receiver-general for Canada, wrote, "Because the main growth in world trade will be, as it has been since the war, in manufactured goods, clearly it is here that our main efforts must be made. The cost of failure [will] be either a higher current deficit in our balance of payments – and therefore increased dependence on other countries – or a slowing down in our economic growth."[10]

Since this apparent statement of government policy was announced, both Canada's share of manufactured products in world trade and the share of manufactured products in Canadian exports (excluding trade under the Auto Pact) have declined. The consequences have not, however, been what Mr. Sharp predicted, namely, substantially higher deficits in the current accounts of the balance of payments *or* slower economic growth. Rather, the consequences have been both.

Canada, the United States, and Trade

In 1883 Canada's trade with the United States surpassed that with Great Britain, and it has been growing ever since. Indeed, by 1984 approximately 80 per cent of Canada's international trade was with the United States, and Canada is the largest customer in the world for U.S. products. In 1983 the two countries exchanged goods worth more than US$160 billion. Indeed, the volume of trade with the United States is so great that Canada's prosperity has become, whether one likes it or not, inextricably linked to that of the United States. Any changes of magnitude that occur in the U.S. economy have important implications for Canada, and in the last part of the twentieth century the American economy will continue to undergo significant changes.

It is now generally accepted that the transfer of the mass-production assembly lines operations – the very ones on which its growth was based – which began in the 1960s from the United States to other countries, will continue. Some indication of the loss of the competitive position of U.S. manufacturers is the drop between 1970 and 1980 in exports of automobiles by one third, of industrial machines by one third, of agricultural machinery by more than 40 per cent, of telecommunications equipment by 50 per cent, and of metal-working machinery by 50 per cent. These products lost their competitive position not only in world markets but also in the domestic market. In the 1960s, imports of automobiles, steel, television sets, calculators, machine tools, textile machines, and numerically controlled machine tools each accounted for less than 10 per cent of their respective markets. By 1981, however, 34 per cent of automobiles, 19 per cent of steel, 60 per cent of television sets, 43 per cent of calculators, 27 per cent of machine tools, 35 per cent of textile machines, and 53 per cent of numerically controlled machine tools purchased in the United States were imported. Imports of manufactured products into U.S. markets were 10 times greater in 1980 than they were in 1970, and about 70 per cent of all goods produced in the United States were competing with imports.[11] U.S. manufacturers unable to hold their share of domestic markets certainly could not do so in international ones.

These changes do not mean, as the record level of performance in the mid-1980s indicates, that the American economy will cease to grow and prosper but that growth will come from new and different types of activities. What has happened is that the United States is no longer a post-industrial society but one based on information and knowledge. In 1983 about 25 per cent of the U.S. gross national product was produced in the information sector, and 90 per cent of the jobs created between 1970 and 1980 were in the knowledge and information areas.[12] More than 75 per cent of all employment in the United States in 1984 was associated either directly or indirectly with computers. The dimension of the change is illustrated by the simple fact that in 1977 "only fifty stores catered to computer hobbyists; . . . by 1983 there were over 10,000."[13] The development of the computer has meant for the U.S. economy in the last quarter of the twentieth century what the invention of the fractional horsepower engine meant to the Industrial Revolution. As a consequence, it is estimated that by the year 2005 traditional manufacturing activity will employ not more than 5 per cent of the U.S. labour force—about the same percentage as agriculture.[14]

The challenge for American business over the next few decades is to create jobs through the use of knowledge. During the latter part of the twentieth century, U.S. industrialists will, therefore, concentrate production in those areas where costs will be reduced by applying new ideas rather than by increasing the volume of production. This, in turn, implies an increase in precision production, which means short runs and technologically driven activities where costs are reduced by solving problems. It means a shift from a hierarchical style of management to joint decision making and team operations. It means flexibility in manufacturing processes.

Growth in the American economy will come not from the steel industry, but from the production of specialized steel; not in textiles, but in synthetic fibres; not in general engineering, but in precision engineering and computers; and in biotechnology, fibre optics, lasers, and high-technology ceramics. Biology will probably replace physics as the great generator of new products; fermentation, chemical enzymes, and gene splicing will be at the forefront of development. The United States will probably also maintain its lead in computer software production and development, information processing, space and aerodynamics.[15]

These changes in the sources of economic growth are causing other major changes in the U.S. economy. Because most of the growth industries are in the southern and western regions of the nation, particularly Texas, Arizona, California, and Florida, many people have moved to these areas; by 1984 more Americans were living in the South and the West than in the North and the East. Akron, Dayton, Detroit, Cleveland, and many other northern cities have lost jobs and lost people while Dallas, Phoenix, Los Angeles, San Diego, and other western and southern metropolitan areas have grown. The states surrounding the Great Lakes now make up the American "rust belt."[16]

Patterns of production in the United States have changed in response to the new patterns of production throughout the world. It is less expensive for Americans to import mass-produced goods than to manufacture them. As a result Americans are trading more, and the significance of international trade to the U.S. economy has increased in both relative and absolute terms. In 1980, 19 per cent of the goods Americans made were exported (up from 9 per cent in 1970), and more than 22 per cent of the goods Americans used were imported (up from 9 per cent in 1970.)[17]

Moreover, the United States is importing a great deal more than it is exporting. In 1985, for example, the deficit in the U.S. balance of trade was more than US$100 billion. This deficit was financed primarily by a vast flow of investment funds into the United States in response to the relatively high interest rates and stability of the economy. Interestingly, a major source of investment funds was Canada.[18]

The implications for Canada of these changes in the U.S. economy have been masked by the fact that the volume of trade between the two countries has been steadily increasing, except during the Depression, since 1880. The implications are, however, immense. First, it is highly unlikely that the trade deficit of the United States will persist in perpetuity. It will adjust for one or all of the following reasons: (1) American industries that are losing domestic market share will receive some type of protection through tariff and non-tariff barriers; (2) as interest rates decline, less funds will be available from foreign investors to finance the trade deficit; (3) as exchange rates change, imports will become more expensive. Regardless of the reason, as imports, relative to exports, into the U.S. economy decline, the Canadian economy, because it is the largest supplier, will be greatly affected.

Second, though the short-term implications of the changes in U.S. trading patterns are significant, they are much less important to Canada than the long-term consequences of the restructuring of the American economy. Historically, with the exception of trade under the Auto Pact, exports of raw materials and of semi-finished products made from raw materials have dominated Canada's trade with the United States. As the years go by, and as less and less of the American economy is based on manufacturing, the demand for such goods will drop. Moreover, because Canadian producers have high costs, they will find it increasingly difficult to compete with producers from other countries for a share of not only the long-term declining markets but for any markets at all.

In the latter part of the twentieth century Canada finds itself to be a high-cost producer of goods for which the demand is falling (or likely to fall), particularly from its most significant customer. Because Canada generates 35 per cent of its gross domestic product from trade and has 80 per cent of its trade with a country whose economic base is rapidly changing, it is not in an enviable position.

Reacting to Change

Serious domestic problems in Canada, such as unemployment, federal deficits, regional disparities, and national debt, may possibly be solved through the resolute application of policies used in the past. This is not the case, however, for the problems created by changes in the world economy. If the past is prelude to the future, it is quite clear that without significant policy changes, Canada will not be able to maintain, let alone increase, its share of world trade. Moreover, the policy changes required to ensure that Canadian producers will have the ability to compete in world markets may result in the need for new and totally different domestic policies.[19]

How can the government determine what new policies are necessary? How can it decide what changes are essential to ensure that Canadian firms can compete in world markets? How can radical changes in policy be made?

Canada being Canada, the government, for good or ill, is attempting to find answers to these questions through widespread consultation with representatives from all sectors of the economy.[20] Indeed, in his first Speech from the Throne Prime Minister Mulroney fully committed his government to such an approach. That he should put his faith in consultation, given the long-lasting love affair of Canadian governments with the process, is not astonishing; whether it will result in a solution to the problems is quite another question.

Consultation in Canada is a national pastime. The first royal commission was appointed in 1868, and both federal and provincial governments have been appointing them ever since to consult with the public about issues ranging from the trivial to the profound. In addition, primarily because of the nature of the Constitution, federal and provincial governments consult with each other to such an extent that agencies have been created in governments to do nothing but expedite and manage joint government meetings. Numerous task forces and special parliamentary committees have examined the attitude of the public about a host of issues, and white and green papers have been published periodically to generate input from affected parties about legislation and policy initiatives. We are a nation surfeited with consultation.

Whether or not all this consultation has been of critical importance in the development of public policy in Canada is an open question. Clearly, its significance has varied from issue to issue. The report of the Royal Commission on Dominion-Provincial Relations (Rowell-Sirois) had a great impact on public perceptions and public policy; the report of the Royal Commission on Corporate Concentration had very little. On balance, however, without denying the importance of the consultative process in a free society, there is no doubt that much of it has been of little value, at best cosmetic, without any major effect on policy.

This conclusion is particularly true of consultation between government and business on major economic issues. Individual firms and industries have constant and important input through trade associations and other avenues in the development of policies affecting their individual operations. The Canadian Manufacturers' Association, the Canadian Chamber of Commerce, the Business Council on National Issues, the Canadian Federation of Independent Business, and similar national bodies meet from time to time with parliamentarians and cabinet members to put forth their views on national matters. Such meetings are undoubtedly worthwhile. However, the establishment, in the face of concerted negative recommendations from the business community, of such organizations as the Canada Development Corporation, the Foreign Investment Review Agency, and Petro-Canada suggests that on major economic issues in recent years the impact of consultation with the business sector on policy makers has been negligible.[21]

Even when attempts have been made to develop economic policies through consultation within totally non-adversarial contexts, the results have been disappointing. In 1978, for example, the federal government organized task forces comprising representatives from business, labour, and the provincial governments for 23 sectors of the economy for the specific purpose of obtaining recommendations about economic policy. In spite of great efforts, largely harmonious meetings, and a spirit (at least at the beginning of the exercise) of cooperation among the participants, it is widely accepted that this extensive consultation had almost no effect on the formation of public policy. The results of another important, though more narrowly focused attempt – the Major Projects Task Force on Major Capital Projects in Canada to the Year 2000 – were no more impressive. An indication of the Trudeau government's lack of commitment to the substance rather than the form of the consultative process was its failure to consult industry officials when it developed the National Energy Policy in 1981.

One can only conclude that although governments in Canada have often turned to business for advice, there has never been a specific policy for the use of consultation in economic matters.[22] On some issues, for example, governments did not engage in consultation at all; on others, such as the Carter Commission on Tax Reform, its use was extensive. Consultation has occurred *ad hoc* and only with selected groups so that on some important questions major players have been totally ignored. Often it has been used by governments when they faced a political problem and did not know what to do (the Royal Commission on Corporate Concentration, for example) or when they wanted to confirm action they had already taken. Even when they have consulted, the results have occasionally not been integrated into the decision-making process; such was the case with the Hellyer Task Force on Housing. Nothing like the permanent organizations for consultation between business and government that exist in Japan, West Germany, Austria, and many other countries have evolved in Canada. Whether they should have or not is another question; the fact is they have not. After a century of consultation, the institutions and attitudes essential for effective, continuing consultation between business and government on economic matters do not exist in Canada. Unless major changes take place in the processes of, attitudes about, and institutions for consultation, the business and government leaders who are relying on the consultative process to generate appropriate economic policies for the nation during what are expected to be turbulent economic times are certain to find such reliance badly misplaced.

Business Leaders, Politicians, and Consultation

Business leaders consult with and are consulted by government officials every day on matters directly affecting their enterprises—tax rulings, tariff changes, interpretation of regulations, and a myriad of other matters inevitable in a modern economy. Such consultation between government and business is well organized, well understood, and reasonably efficient.[23]

When it comes to consultation about broad economic policy and national economic goals, however, business executives are much less committed to the process. After all, they are not unemployed politicians. They perceive their responsibilities as earning a profit for their shareholders, maintaining the continuity of their operations, and satisfying the needs of their various stakeholders rather than solving matters that appear to relate only tangentially to the operations of their enterprises.

In addition, most business leaders are uncomfortable with the entire idea of developing national goals and national strategies. They believe that any effort to establish definitions is simply a step toward more direct government intervention in the economy, which they oppose in principle if not always in practice.[24] They may well argue that too many policies in recent years have flowed from either an implicit or an explicit consensus about faulty goals – wealth distribution, for example, rather than wealth creation.[25] Even so, they are skeptical of any efforts to specify new ones.

Finally, and most significantly, consultation on broad policy issues is complicated by the fact that business leaders and politicians operate in quite different ways. The characteristics that lead to success in one field are quite unlike, and often inimical to, those required in the other.

Effective politicians must be able to negotiate, be flexible, and have infinite patience. They must be able to adapt quickly, for "substance and commitments [are] nothing [to the politician] if the political climate change[s]."[26] When they can, politicians will avoid locking into a position, because policies can be developed only in a complex society through a series of trade-offs. Principles to which a politician has pledged lifelong fidelity may become redundant if conditions change.

What is true for an individual politician is equally true for a political party. Flexibility is everything. Inability to change a position rapidly can be as fatal to a political party as it is to a politician. In the spring of 1973, for example, the Progressive Conservative party, while in opposition, took the position that, if elected, it would bring in short-term wage and price controls to break the psychology of inflation then sweeping the nation. In the fall of 1973, however, the Organization of Petroleum Exporting Countries (OPEC) increased oil prices enormously, thereby creating inflationary pressures with which no domestic policy could cope. Wage and price controls no longer appeared to the public to be an effective method for dealing with the problem, but because of its firm commitment, the PC party was unable to get out of the controls policy before an election was called. As a result, instead of moving from a minority position to a majority, it suffered serious losses.

The lesson was well learned. No political party in opposition, and seldom in power, has since felt the need to take positions that cannot be quickly modified as the political climate changes. Indeed, in the election of 1974 the Liberals, under the leadership of Prime Minister Trudeau, campaigned vigorously against controls and introduced them in 1975.

The inevitable interpretation by businessmen of these characteristics of the political process is that the political system "is out of control, unreliable and unpredictable,"[27] and the people in the system are, at best, incompetent, if not worse. Such an interpretation is, however, unfair, for it takes incredible discipline to be a successful politician. The trade-offs required in forming policy are complex and take a long time to work out, and a politician who starts a process may never see it finished. This is one of the reasons many politicians simply cannot become interested in long-term policy questions.

Most persons in business work quite differently. Not only are their management skills not the same as those of politicians, but most executives are temperamentally unsuited to participate in the political process because of the way power is sometimes brutally used. They are accustomed to a hierarchical style of management, relatively rapid decision making, reasonable privacy, and, most important, a working environment that, within limits, they understand and control.

In spite of these problems, and the past record, there is no reason why effective consultation on specific major economic matters cannot take place in Canada. The conditions for effective consultation – strong government commitment to the effort, carefully planned agendas, clear understanding of procedures – are well known and can be easily incorporated into any consultative activity.

Moreover, though very real differences exist between the value systems and the decision-making processes of government and business, there is a growing sense of urgency that new approaches must be found for dealing with changing economic situations and that they can be found only through cooperative efforts. Few contemporary business managers are so naive as to believe that economic policies can be made outside of a political context, and most politicians realize that, normally, the private sector can most effectively organize the resources to maximize economic production. Once business and government recognize and accept that they must work together to achieve mutually desired results despite their differences, effective consultation on many issues can proceed with the expectation of positive results.

Consensus and Consultation

While one may be relatively sanguine about the possibilities of developing effective consultative procedures for specific economic problems, the same is not so about the prospects for creating, through the consultative process, a consensus on new economic goals for the nation. And yet, new economic policies to deal with changing international economic conditions can be created only within the framework of such a consensus. The central task facing Canadian policy makers is not the relatively simple one of diagnosing the potential negative effects of changes in the world economy on Canada and developing measures to neutralize them.

Nor is it merely the task of designing new programs that will turn problems into opportunities. Rather it is discovering and implementing procedures for creating a consensus on the future economic goals for the country. Without such a consensus there is no possibility that a coherent economic strategy for dealing with changing economic conditions can be put into place. Clearly, the consultative process as it has been practised in the past in Canada can never lead to the development of the elusive but essential consensus the nation needs.

Two types of consensus can exist in a country – implicit and explicit. The first is simply agreement on the rules of the game: that is, the social contract that once decisions are made according to the rules, the consequences of the decisions will be accepted. The second, an explicit consensus, is much more complex. It means that there is an agreement about a series of goals (political, social, economic) that society will attempt to achieve through appropriate interrelated policies. In pluralistic, democratic societies the implicit consensus always exists. It is a precondition for the operation of the nation; without it there would be anarchy or dictatorship. Less-often found, however, is a specifically articulated, explicit consensus about goals less general than support for justice, freedom, and prosperity.

Inasmuch as consensus is simply agreement, the essence of any explicit consensus is what the agreement is about, so the possible content of any consensus is almost limitless. There may be an explicit consensus that government policy should be directed at ensuring that market forces determine the allocation of resources and the winners and losers in the economy; or that policy should be directed at improving the general investment climate with no favouritism for one sector over another; or that policy *should* favour one sector – high technology, traditional industries, or the resource industries. The possibilities are endless.[28]

Creating a consensus on explicit economic goals and then putting the policies in place to fulfil them is a monumental task under any circumstances, and many believe that in a democracy it simply cannot be done. They may be correct. Modern pluralistic democracies with their checks and balances were specifically designed to prevent any one view from dominating; indeed, governments are structured so that policies are determined by finding the lowest common denominator acceptable to all groups affected by a measure. Moreover, in a well-functioning democracy based on the consent doctrine, each group having an interest in a specific piece of legislation has a legitimate right to be involved in its formation.

Because any new consensus will entail the development of strategies that could have very high short-term costs to various groups within the economy, gaining agreement about new goals will be difficult. Just how difficult the task may be is underlined by the fact that only Japan among the major industrial nations of the world, according to Peter Drucker, has found an effective way of bringing about changes – sometimes very dramatic ones – in individual sectors of the economy when such changes are essential for the fulfilment of national goals.[29]

In addition, some analysts maintain that because of the nature of Canadian institutions, the openness of the Canadian economy, the attitudes among various sectors, and the disparities among regions, it is far from certain that a national consensus about goals can ever be reached. Others contend it is irrational even to try. Canada's economic destiny, it is argued, has been, and always will be, predetermined by geography and history.[30] Ever since Confederation, some say economic forces have continuously operated to integrate the Canadian economy more closely with that of the United States, in spite of efforts to slow it down even moderately. The attempts of Prime Minister Trudeau to forge a new "contractual link" with Europe in the late 1970s and those of Prime Minister John Diefenbaker in the late 1950s and early 1960s to increase the proportion of trade with Great Britain and other European countries did little to change the historical pattern of development. Under such circumstances, why should resources be spent to develop a consensus about new goals when Canada's future is inextricably tied by geography, if by nothing else, to that of the United States?

The answer, of course, is that an effort to develop new strategies and goals does not imply any rejection of economics, geography, and history. On the contrary, such an effort is called for because the world and U.S. economies are undergoing great changes, and Canadian policy must react to those changes. Also, policy can make a difference. Competitive and comparative advantages can be altered. The replacement of the static, classical economic notion that comparative advantage in world trade rests on natural endowments with the dynamic concept that competitiveness depends on "such elements as human creative power, foresight, a highly educated work force, organizational talent, the ability to choose and the ability to adapt"[31] by policy makers in Japan is a major reason why that country has become one of the leading industrial nations in the world rather than merely a major exporter of rice. Policy does matter.

If the creation of a new national consensus about national goals appears to be an essential condition for the development of new policies to meet new challenges, it is highly likely, despite their skepticism, that business will cooperate in any consultative effort designed to do so. Canadian business leaders are recognizing more and more, as are executives in other countries, that management's responsibilities in an increasingly complex and interrelated world include "influencing the public laws and institutions that provide the context"[32] within which the private sector operates.

Although one may conclude with some confidence that chief executive officers will play their part in the process of searching for a consensus, it is less certain that governments will be able to play theirs. In our pluralistic, regionally dominated society, governments may not be able to provide leadership sufficient to achieve the institutional reforms that are a prerequisite for the development of a national consensus on economic goals.

The costs to Canada of failure to develop a national consensus about goals and new and bold thinking about policies could be incredibly high. The forces of change in the world are so strong, and could be so inimical to Canada's future, that without an effective response the Canadian economy could decline precipitously. It is clear, therefore, that difficult as the task of building a consensus may be, government, business, and political leaders, to fulfil their responsibilities to their constituencies, have no option but to do so. Laurier predicted that the twentieth century would belong to Canada. The time left to realize that prediction is, indeed, short.

Notes

1. H.V. Nelles, "Looking Backwards: Interpreting Canadian Economic Development," in *Se Connaitre: Politics and Culture in Canada*, ed. John Lennox (North York: Robarts Center for Canadian Studies, York, University, 1985), p. 18.

2. See Canadian Statistical Review, *National Income and Expenditure Accounts*, First Quarter, 1982, Table 1.

3. See International Monetary Fund, *Direction of Trade Statistics Yearbooks* (Washington, D.C.: U.S. Government Printing Office).

4. Economic Council of Canada, *Seventeenth Annual Review: A Climate of Uncertainty* (Ottawa: Minister of Supply and Services Canada, 1980), pp. 29, 92.

5. See Canadian Statistical Review, *National Income and Expenditure Accounts*, various issues.

6. William H. Branson, "Industrial Policy and U.S. International Trade," in *Toward a New U.S. Industrial Policy?*, ed. Michael L. Wachter and Susan M. Wachter (Philadelphia: University of Pennsylvania Press, 1983), pp. 380-381.

7. John Naisbitt, *Megatrends* (New York: Warner, 1982), p. 63.

8. For an excellent discussion of the changes in the world economy, see Robert R. Reich, *The Next American Frontier* (New York: Times Books, 1983), pp. 117-139.

9. For a detailed analysis of the changing patterns of Canadian trade in various commodities and in different countries, see Joseph R. D'Cruz and James D. Fleck, *Canada Can Compete! Strategic Management of the Canadian Industrial Portfolio* (Montreal: Institute for Research on Public Policy, 1985).

10. Mitchell Sharp, "Domestic Survival through Foreign Trade," in *The Nation Keepers*, ed. I.A. Litvak (Toronto: McGraw-Hill, 1967), p. 241.

11. Reich, *The Next American Frontier*, pp. 117-139.

12. John Naisbitt, *Megatrends, 2d ed.* (New York: Warner Books, 1984), p. 18.

13. Ibid., p. 22.

14. Peter F. Drucker, "Demographics and American Economic Policy," in *Toward a New U.S. Industrial Policy?*, ed. Wachter and Wachter, p. 237.

15. Reich, *The Next American Frontier*, pp. 127-128.

16. It should be noted that the New England states are experiencing a remarkable resurgence in economic activity based on the knowledge industries.

17. Reich, *The Next American Frontier*, p. 121.

18. For a lively discussion of the impact of some Canadian investment on Americans and the U.S. economy, see Andrew H. Malcolm, *The Canadians* (Markham: Fitzhenry and Whiteside, 1985), pp. 191-318.

19. Peter F. Drucker, "The Changed World Economy," *Foreign Affairs* 64 (Spring 1986), p. 791.

20. Consultation involves listening to another point of view and exchanging information and perceptions. For a more detailed definition, see the Conference Board of Canada, *Forging Links of Co-Operation* (Ottawa: Conference Board of Canada, 1984), p. 2. Some idea of the extensiveness of the use of various consultative mechanisms in the post-war period is indicated by the fact that John Diefenbaker appointed 16 royal commissions; Lester Pearson, 20 (Ibid., p. 12). In 1982 alone, 26 task forces were appointed (Ibid. p. 2).

21. There is no such thing as a homogeneous business community, and so there is no one position that can be safely identified as "the" position of business. Generalizations can be made, but it is important to remember that they do not encompass every position of every person involved or interested in a particular situation; and, of course, they are not intended to. If they did they would not be

generalizations. Certainly the Canadian business community is not as homogeneous as that in many other countries. See Chapter 5.

22. The ambivalence of the government about consultation at the policy level has continuously been reinforced by the attitude of public servants. While it is not usually their responsibility to become directly involved in the process – that is the task of the politician – public servants appear to be very wary about consultation on policy matters. They traditionally place a low value on openness and a high value on secrecy (as evidenced by the reluctant acceptance of freedom-of-information legislation); they are not trained to consult effectively; they resent the time it takes and the fact that, because it is not normally included as part of the policy development process, there is little money budgeted for the activity.

23. For a discussion of the process, see James Gillies, *Where Business Fails* (Montreal: Institute for Research on Public Policy, 1981), Chapter 5.

24. See, for example, "The Fifth Annual Chimo Round Table in Print," *Chimo Magazine* (February/March 1983), pp. 17-56. Nineteen economists and business leaders answered the question "Do you think that Canada should seek an accord which would lead to a social contract between government, business and labour?" A majority answered no.

25. See D'Cruz and Fleck, *Canada Can Compete!* p. xiii.

26. Joseph L. Bower, *The Two Faces of Management* (Boston: Houghton Mifflin, 1983), p. 126.

27. Ibid., p. 133.

28. In the summer of 1985, 120 Canadian public opinion leaders were asked what type of national economic strategy the government should follow; they overwhelmingly preferred the general incentives approach with no specific area being targeted for special attention. See *Canada's Future: Report to Opinion Leaders* (Toronto: Opinion Leader Research Program, Hay Management Consultants, March 1985), pp. 48-49.

29. Peter F. Drucker, "Behind Japan's Success," *Harvard Business Review* 59 (January-February 1981), pp. 83-90.

30. See Chapter 4.

31. Chalmers Johnson, "Introduction: The Idea of Industrial Policy," in *The Industrial Policy Debate*, ed. Chalmers Johnson (San Francisco: Institute for Contemporary Studies, 1984), p. 8.

32. Bower, *The Two Faces of Management*, p. 133.

Chapter 2:

Industrial Strategy: An Idea Whose Time Has Come

Business leaders should be under no illusion, nor should they be worried, that the major consultation the government is undertaking in Canada in the mid-1980s has to do with the development of national economic policies. The issues raised at the National Economic Conference in Ottawa in March 1985[1] and the cross-country consultation on the appropriateness of free trade with the United States, made it quite clear that the important consultation in Canada about economic matters is consultation about national goals and how they can be achieved. Consultation and the formation of a national economic strategy have become inextricably linked. Consequently, given that an industrial strategy is an integral part of any national economic strategy, when business leaders are consulted by government, whether the words are ever explicitly mentioned or not, they are being asked to help design some type of overall economic policy for the nation.[2]

For a variety of reasons, some ideological, others pragmatic, there is a widespread body of opinion that it is not only impossible but probably counterproductive to try to develop a national industrial strategy for Canada.[3] And this may be true. Business leaders and others should not, however, reject the concept out of hand because of some preconceived notions of what contemporary industrial strategies are all about. It is a concept that was first and most fully developed in Japan and that has been successfully used in recent years by other countries with great success. These successes, and some failures, have been the subject of extensive review and study. Indeed, analysis of industrial strategies has become one of the great growth industries of the decade. Much more is now known about them than was the case only a decade ago. (Japan has gone from being one of the least-studied countries in the world to being one of the most.[4]) To suggest, therefore, that the proponents of such an approach to policy making are simply rehashing old unworkable ideas indicates a lack of appreciation of recent developments in economic policy making throughout the world.

Given these developments and given the opportunities and problems facing the Canadian economy as the end of the century approaches, it would seem only prudent to review, without prejudice, contemporary thinking about industrial strategies, if for no other purpose than to determine whether such an approach to economic policy making should be tried, or at the very least debated, in Canada.

Defining the Indefinable

Most countries in the world, including Canada, have in place hundreds of programs that influence the way business operates. Some programs, such as subsidies and quotas, affect the production of goods and services directly; some, indirectly through changing patterns of growth. These policies, each enacted for a particular reason (usually because of political pressure) are the components of any industrial strategy. Whether a nation has a strategy depends, however, not on the existence of many or few specific programs designed to influence business activity but (1) the extent to which a country, through its government, has some economic goal or goals it is attempting to achieve (or, as the Japanese call it, some "vision") and (2) the extent to which policies are put in place systematically to reach the goals. It is a sense of purpose and a defined objective that changes a series of independent industrial programs into a coherent industrial strategy. Goals and means may differ; indeed, they do over time and among countries. But the single common denominator of industrial strategies remains the same: the implementation of policies that reinforce one another to achieve a predetermined, national economic objective.

It is impossible to generalize about the content and nature of industrial strategies because strategies are always contingent. They take their structure from what they are expected to achieve, and they therefore vary in "conception, content and form, reflecting the stage of development of an economy, its nature and historical circumstances, international conditions, and its political and economic situation".[5]

Industrial strategies complement and supplement monetary and fiscal policies. They are the third element in any comprehensive program of national economic measures. Because, like monetary and fiscal policies, they have a major impact on the economy, they must be created and assessed according to their capacity to contribute to the fulfilment of the economic goals of the nation. A well-developed industrial strategy introduces goal-oriented strategic thinking into economic policy making.

Industrial strategies can take almost any form. Getting the government to do less, making the economy more efficient, expanding international trade, bringing balance to the current account of the balance of payments can all be the goals of industrial strategies. Often forgotten, is the important point that in the Canadian political system there is no reason the adoption of an industrial strategy should mean the nationalization of industry, more government spending, and increased government control. One would expect an appropriate strategy in a democracy to result in less of each of these.

Implicit in any attempt to develop an industrial strategy is the belief that a consensus can be developed about the goals for society and a nation, that there is an agreed-upon vision about what must be achieved. Immediately after World War II, for example, the central goal of the Japanese was to rebuild their economy, an easy vision to agree upon under the circumstances. There was general recognition that the goal could not be reached without importing raw materials and energy. Therefore, the prime purpose of economic policy was to earn foreign exchange, so domestic production was concentrated on the manufacture of goods that would be competitive in international markets. Any foreign exchange that was earned was used to purchase raw materials essential for production. The use of foreign exchange for travel abroad was prohibited since it would not contribute to the fulfilment of the national objective. As conditions changed and the availability of foreign exchange increased, control over its use was relaxed.

In the 1960s, the French had a goal of increasing employment by shifting activity from farming to manufacturing. They believed that industrial jobs were created through growth, growth from exports, exports from adaptation of domestic industries to new conditions, and that adaptation was easier to bring about in industries controlled by the French than by foreigners. To carry out the strategy, the government imposed policies that prohibited the sale of certain industries to non-citizens.

Austria has had the goal of surpassing West Germany in all areas of economic activity – inflation, employment, productivity. By adopting policies to fulfil this goal the country has experienced high levels of economic activity. Lester Thurow, the American economist, has argued that Canada should have the same goal vis-à-vis the United States. Unfortunately, he is less than specific about how such a goal can be reached.[6]

The point is that the nature of the goal is not important. Whether it is expressed in terms of the Japanese vision, French indicative planning or the U.S. increase in competition through deregulation, the point is that is that a country must have a consensus about goals and an understanding of the need for non-conflicting policies if the goals are to be achieved.

Objections to Industrial Strategies

Although there is widespread recognition that industrial policies will always exist—they are as inevitable as government itself—critics advance three reasons why government should not waste time attempting to develop any type of industrial strategy based on a national consensus about economic objectives. One objection is primarily ideological; the two others primarily analytical.

Industrial Strategies and Government Intervention

The ideological objection to the creation of an industrial strategy is that such an effort inevitably would increase government activity in the economy. It is interesting to assess this view in relations to developments in the Canadian economy since World War II.

During most of its history Canada has had an implicit national economic strategy based on export of resources, imports of capital, and the protection of some manufacturing behind tariffs. Within this framework, however, there has never been any coordinated industrial strategy designed to achieve preconceived goals. If one of the objections to the development of a strategy is that it will lead to greater intrusion of the government into private sector, the absence of any strategy ought to mean relatively little government intervention. The Canadian experience demonstrates that this is not necessarily the case.

Since World War II the role of government in the Canadian economy has expanded enormously.[7] Between 1950 and 1980 the proportion of the total gross national expenditure, in real terms, attributable to government increased from 27.0 per cent to 48.0 per cent; that is, the rate of growth of government expenditures was 70 per cent greater than the rate of growth of total expenditures. In 1984 the federal government spent over $205 billion, approximately 66 per cent more than in 1970. During the 1970s expenditures increased so much faster than revenues that the budget deficit in 1984 equaled 40 per cent of total federal revenues in 1970.[8] The Glassco Commission reported that in

1962 there were 337,000 employees in departments and Crown agencies; in 1976 there were more than 465,000 employees, and in December 1985, there were more than 587,000 employees in the branches and Crown agencies.[9]

Significant as all these measures of growth may be, they reveal less about the extent of the increased role of government in the economy than those for the changes in the amount of goods and services produced by governments. Between 1947 and 1951, on the average, governments produced about 3.7 per cent of all goods and services; by the mid-1970s the share of direct government activity had increased to 13.9 per cent.[10] By 1980 it was 16 per cent, and in 1984 it was estimated to be more than 19 per cent. In short, between 1950 and 1980 direct government activity increased by more than 400 per cent.

Most, but by no means all, of this direct activity in the economy is carried out by Crown corporations. In 1981 the government owned, wholly or partly, 464 corporations and through these firms had an interest in another 213 subsidiary and 123 affiliated organizations. Large and startling as these figures may be, what is most significant is that 80 per cent of the firms in which the government has an ownership interest were established since 1960 and more than one third since 1970.

The provinces also increased their direct activity in the economy during this period. In 1980 they operated 233 corporations and had equity in another 12. Seventy-six per cent of the wholly owned corporations were created since 1960.

In 1981 wholly owned, government-controlled enterprises had expenditures of $30.4 billion and employed 263,000 people. Moreover, not only are Crown corporations large—in 1982 the *Financial Post* listed 38 enterprises controlled by the Canadian government among the 500 largest non-financial corporations—but they are also active in all sectors of the economy.[11] (See Table 2.1.)

The reasons for the movement of the government into so many sectors of the economy are complex and varied. Much of the government activity was to build an infrastructure for the nation and much to protect the national identity. It cannot all, however, be explained by these traditional reasons. A good deal of the intervention came about because governments were convinced that direct involvement was essential to improve economic performance in certain sectors of the economy.[12] Whether it was an accurate belief is open to debate, but what is not debatable is that since World War II governments have increasingly used the policy instrument of direct intervention in an effort to resolve perceived intransigent economic problems in different sectors.

TABLE 2.1
Share of Market Held by Canadian Government Controlled Enterprises, 1980 (per cent)

Market Share	Sectors
0 – 20	Oil and gas production, chemicals, banking services, insurance, agriculture, forestry, manufacturing
20 – 40	Steel production, coal production, fishing, radio and television broadcasting, telecommunications
40 – 80	Railways, airlines, aerospace, asbestos, potash, uranium mining
80 – 100	Ports and airports, liquor distribution, postal services, electric and atomic energy, urban transportation, lotteries

Source: B.E.C. Boothman, "In Business for Canada: The Strategic Behaviour of Canadian Controlled Enterprises" (manuscript, Faculty of Administrative Studies, York University, Toronto, 1985), unpaged.

That governments have acted is not unusual. As long as there are problems, governments will attempt to solve them. It is difficult to believe, however, that the *ad hoc*, uncoordinated approach followed by governments since World War II has led to less government or better policies than would have been the case if there had been some identification of national goals and a consensus about policies necessary to achieve them. Such a conclusion is supported by the fact that in Japan, where explicit strategies have been in place since the early 1950s, the proportion of government expenditures as a percentage of gross domestic product in 1981 was 10.1 per cent compared with 45 per cent in Canada. Public sector employment in Japan was 6.6 per cent of the labour force compared with 25 per cent in Canada.[13] Which country has more government intervention?

Paradoxical as it may seem, measures to create a new consensus about national economic goals and the policies necessary to fulfil them could well be not only the most efficient but the only way of ensuring less, not more, government activity in the economy in the years ahead. Rejection of the concept of an industrial strategy for the reason that it will lead to greater government intervention in the economy is probably wrong and surely irrelevant, given the extraordinarily large role the state already has in the Canadian economy.

Industrial Strategies and Parliamentary Democracies

The second objection to attempts to formulate an industrial strategy is that in a pluralistic democratic society it is impossible for an effective strategy to be created. American economist Charles L. Schultze made this point:

> There are many important tasks that only governments can do—and, with constant effort and watchfulness, they can do those tasks passably well. But the one thing that most democratic political systems ... cannot do well at all is to make critical choices among particular firms, municipalities or regions, determining cold bloodedly which shall prosper and which shall not. The government can, and continually does, adopt policies that have the indirect consequence of harming particular individuals or groups. But a cardinal principle of ... government is never be seen to do direct harm. The formal and informal institutions of the political system are designed to hinder government from making hard choices among specific individuals, rewarding some and penalizing other.[14]

In short, Schultze and many others argue that industrial strategies that work effectively simply cannot be developed in modern democracies.[15] For economic growth, there must be "creative destruction", the replacement of the old with the new; but governments, in a pluralistic, democratic system, regardless of their intentions, by political necessity must spend most of their efforts protecting the *status quo*. Consequently, it is contended, workable industrial strategies cannot be developed. These critics maintain that the conflicting and contradictory policies at play are the natural result of the political forces inherent in a pluralistic democracy, and nothing can be done about it. That is simply the way the systems works.

Industrial Strategies and the Market System

The rejection of attempts to formulate an industrial strategy on the grounds that one cannot be developed in a democratic society is supplemented by the argument that even if one could be put in place, it would be ineffective. Most classical, and even many liberal, economists take this position because for many of them developing an industrial strategy sounds too much like planning, the substitution of the impartial forces of the market by the edicts of government. They argue that strategies are unnecessary because the "invisible hand of Adam Smith" will lead to the most efficient possible use of resources, and they perceive the concept of industrial strategy as being somehow antithetical to the operation of free, competitive markets. Yet neither in principle, nor in practice is there conflict between the use of the market to allocate resources and the implementation of an industrial strategy. Indeed, a major thrust of many industrial strategies is to increase the degree of competition in the market-place. Any conflict that does exist is more about goals than methods.

No doubt, under certain specified conditions – the static ones of perfect competition – the market allocates resources in a way that maximizes output.[16] The reality, however, is that for a vast number of reasons, most markets may not operate under such conditions. John Kenneth Galbraith argues that they never have.[17] They may be too small to permit firms and enterprises to enjoy all the economies associated with large-scale production; often there is lack of mobility of resources, particularly in the labour market; occasionally significant goods and services are not traded; almost everywhere there are monopolies (many of which are created by governments).

If, because of all the imperfections in society, markets do not allocate resources as they would under conditions of perfect competition, policy makers have two choices. They can enact measures designed to remedy the results of market failure, or they can attempt to remove the causes of the failure. The position of the classical economists is clear. They argue that every possible effort should be made to remove the causes of the failure, thereby making the market more competitive. If there must, however, be some type of intervention for political, social, or economic reasons they argue, "the socially optimum industrial strategy is one [that allocates resources] . . . including those that are used for the purpose of intervention . . ."[18] as nearly as possible in the way they would be allocated under competitive market conditions; and the whole process should be considered as a classical economic problem in economic theory of the second best.[19]

Such a recommendation is correct if the sole goal of policy is to obtain the maximum possible output from the available resources. For a variety of reasons, however, the maximization of output may not be the goal of policy makers. When the results of market allocation create serious political unhappiness in the electorate , governments will intervene. Man and governments do not survive on efficiency alone. Non-intervention in the market-place may seem on the face of it "to be an extremely just state of affairs, unless of course, the income one obtain[s] from participation in the market [is] insufficient to live on."[20] For good or bad, if there is no national consensus that the way in which the market is allocating resources is satisfactory, there will be changes. This is a reality that cannot be ignored. Economic analysis that does not deal with the political aspects of its normative conclusions is addressing only part of the problem and is not particularly helpful to policy makers.

In Canada the maximization of political goals may be, and probably is, more important to many of the significant decision makers than the efficient use of resources. Anyone who doubts this need look no further than the action taken by the government of Canada because of the rapid rise in the price of oil following the formation of the OPEC cartel. Despite the fact that one third of the oil used by Canadians was imported, the government placed a ceiling on domestic prices and adopted a national one-price policy. As a consequence the price to consumers did not rise commensurately with the increase in costs, and the adjustments in consumption that a free market would have brought about did not occur. In countries that permitted the market to work, the use of oil dropped dramatically, in Canada, because the government prevented the market from sending the signal that oil was no longer relatively less expensive than other types of energy, consumption actually increased in the face of rising real costs. For the politician, at that time, however, keeping the price of gasoline from increasing, at least in the short run, was more important than efficient use of resources.

Policies have multiple goals, and meeting the test of the market-place in terms of efficient use of resources is only one. In the complex real world, government most often intervenes in the market-place in reaction to political needs rather than to an assessment of costs and benefits. As one analyst observed, "We need only think of the various ways in which governments intervene in a modern economy – from tariffs and other instruments of commercial policy, to purchasing and selling policies, to incentive policies in agriculture, natural resources, manufacturing, exports, etc., . . . to realize how complicated the problem is"[21] and how many pressures affect the decision.

The reality that government will always intervene in the market-place is one of the major arguments for, not against, the development of an industrial strategy. Even the most ardent opponent of the concept must recognize that in modern, pluralistic, industrial democracies there will be industrial policies. All but the most ideological opponent must accept that decisions about the form of such policies will be based on a non-rational political process. Consequently, because perfection – that is, perfectly competitive markets with no government intervention – is unattainable, it seems only appropriate that industrial policies should be coordinated to reinforce one another, or at least not to cancel one another out.

Advocates of the position that policies should always be evaluated by their effect on market performance are simply suggesting one of several alternatives for implementing a strategy. In fact, their position is more complimentary than contradictory to that of those who want coordination in the development of programs that affect business. The gap between the proponents and opponents of industrial strategy formulation on the question of resource allocation, and even on the issues of trying to determine some goals or vision for society, may not be as great as often suggested. As Richard Lipsey has pointed out, "Unless we do have some idea of what we are trying to achieve it's awfully hard to select appropriate means of achieving it."[22]

In short, the proponents of industrial strategy are searching for a way to organize effectively the government decisions that influence markets, – decisions governments have been making in a piecemeal, uncoordinated fashion since time immemorial. The need for such coordination is evidenced by even a modest listing of the federal government proposals affecting business activities in Canada as long ago as 1979 – and they have been increasing ever since. (See Table 2.2.) When some of these (and they are far from all) are arranged in a matrix of goals and objectives, it is apparent that most policies have been developed *ad hoc* in response to some immediate need and strong political pressure. (See Appendix C.)

TABLE 2.2
Classification of Canadian Industrial Policy Initiatives by Objective

Increase Employment

EIC 1: Affirmative Action Program
EIC 5: Canada Community Development Projects
EIC 6: Canada Community Services Projects
EIC 7: Canada Manpower Mobility Program
EIC 13: Local Economic Development Assistance Program
EIC 14: National Industrial Training Program
EIC 20: New Technology Employment Program
EIC 21: Local Employment Assistance Program
EIC 32: National Institutional Training Program
EIC 33: Outreach Program
EIC 34: Portable Wage Subsidy Program
EIC 40: New Employment Expansion and Development Program
EMR 38: Super Energy-Efficient Housing Demonstration
ITC 29: Community-Based Industrial Adjustment Program

Stimulate Innovation and Technological Development or Reduce Energy Requirements

DOC 37: Space Industry Development Program
DOC 41: Space Applications Program
DOC 43: Office Communications Systems Program
EIC 20: New Technology Employment Program
EIC 22: Canada Agriculture Manpower Program
EIC 23: Federal Contracts Program
EIC 25: Program for the Employment Disadvantaged
EIC 31: Native Internship Program
EIC 38: Summer Canada Program
EIC 40: New Employment Expansion and Development Program
EMR 7: Coal Utilization Package (several programs)
EMR 10: Utility Off-Oil Fund
EMR 17: Heavy Oil Development/Fossil Fuel Research, Development and Demonstration Program
EMR 27: Oil Import Compensation Program
EMR 36: Atlantic Energy Conservation Investment Program
EMR 38: Super Energy-Efficient Housing Demonstration
EMR 39: Canada Oil Substitution Program
EMR 41: Canartech (a Crown corporation)
EMR 42: Conservation and Renewable Energy Development and Demonstration Program
EMR 48: Forest Industry Renewable Energy Program
EMR 50: Industrial Energy Management Program
EMR 51: National Energy Audit Program
EMR 52: National Energy Bus Program
EMR 55: Remote Community Demonstration Program

EMR 57: Program of Accelerated Demonstration of Solar Domestic Water Heating
EMR 61: Federal Propane Motor Fuel Demonstration Program
EMR 62: Propane Vehicle Grant Program
EMR 98: Industry Energy Research and Development Program
EMR 100: Research Agreements Program
ITC 8: Defence Industry Productivity Program
ITC 23: Machinery Program
ITC 27: Centre of Advanced Technology Program
ITC 30: Industry Energy Research and Development Program
ITC 36: Technological Innovation Studies Program
NRC 26: Industrial Research Assistance Program
NRC 27: Program for Industry/Laboratory Projects
PWC 5: Purchase and Use of Solar Heating Program

Supporting Transition

ITC 29: Community-Based Industrial Adjustment Program

Restructure International Economic Relations

ITC 14: (Forest Industries) Cooperative Overseas Market Development Program
ITC 47: Export Market Development: Financial Incentive Program
ITC 50: Promotional Projects Program

Encourage Development and Growth of Specific Industries and Activities

DOC 3: Film and Video/Capital Cost Allowance Program
DOC 37: Space Industry Development Program
DOC 41: Space Applications Program
DOC 43: Office Communications Systems Program
EIC 20: New Technology Employment Program
EIC 34: Portable Wage Subsidy Program
EMR 2: National Energy Program
EMR 7: Coal Utilization Package (several programs)
EMR 10: Utility Off-Oil Fund
EMR 17: Heavy Oil Development/Fossil Fuel Research, Development and Demonstration Program
EMR 27: Oil Import Compensation Program
EMR 32: Petroleum Incentives Program
EMR 38: Super Energy-Efficient Housing Demonstration
EMR 39: Canada Oil Substitution Program
EMR 41: Canartech (a Crown corporation)
EMR 42: Conservation and Renewable Energy Development and Demonstration Program
EMR 50: Industrial Energy Management Program
EMR 51: National Energy Audit Program
EMR 52: National Energy Bus Program
EMR 55: Remote Community Demonstration Program
EMR 57: Program of Accelerated Demonstration of Solar Domestic Water Heating
EMR 61: Federal Propane Motor Fuel Demonstration Program
EMR 62: Propane Vehicle Grant Program

EMR 98: Industry Energy Research and Development Program
EMR 100: Research Agreements Program
FO 1-3: Variety of services that could be considered in support of the fishing industry, though not named as "programs" *per se*
FO 4: Fishing Vehicle Subsidy Program
FO 5: Newfoundland Bait Program
FO 7: Salmonid Enhancement Program
ITC 6: Grains and Oilseeds Program
ITC 8: Defence Industry Productivity Program
ITC 14: (Forest Industries) Cooperative Overseas Market Development Program
ITC 22: Enterprise Development Program
ITC 23: Machinery Program
ITC 27: Centre of Advanced Technology Program
PWC 5: Purchase and Use of Solar Heating Program

Encourage and Support Regional Development

DOC 46: Northern Communications Assistance Program
EIC 5: Canada Community Development Program
EIC 6: Canada Community Services Projects
EIC 13: Local Economic Development Assistance Program
EIC 21: Local Employment Assistance Program
EIC 31: Native Internship Program
EIC 33: Outreach Program
EIC 34: Portable Wage Subsidy Program
EMR 7: Coal Utilization Package (several programs)
EMR 10: Utility Off-Oil Fund
EMR 17: Heavy Oil Development/Fossil Fuel Research, Development and Demonstration Program
EMR 32: Petroleum Incentives Program
EMR 36: Atlantic Energy Conservation Investment Program
EMR 55: Remote Community Demonstration Program
FO 1-3: Variety of services that could be considered in support of the fishing industry, though not named as "programs" *per se*
FO 4: Fishing Vehicle Subsidy Program
FO 5: Newfoundland Bait Program
FO 7: Salmonid Enhancement Program
ITC 14: (Forest Industries) Cooperative Overseas Market Development Program
ITC 29: Community-Based Industrial Adjustment Program
ITC 53: Regional Development Incentives Program

Perform Economic Research

ECC 1: Economic Council of Canada

Achieve Canadianization of Industries

EMR 2: National Energy Program
EMR 3: Canadian Ownership and Control Determination Program
EMR 32: Petroleum Incentives Program
EMR 41: Canartech (a Crown corporation)
FIRA 1: Foreign Investment Review Agency

Aid Small Business

FBDB 1:	Variety of services that could be considered in support of business and industry, though not named as "programs" *per se*
FBDB 2:	Counselling Assistance to Small Enterprise Program
ITC 22:	Enterprise Development Program
ITC 42:	Small Business Loans Act

Sources: Developed from Board of Economic Development Ministers, *Assistance to Business in Canada* (Ottawa: Minister of Supply and Services Canada, 1979); Department of Energy, Mines and Resources, *The National Energy Program 1980* (Ottawa: Supply and Services, 1980); Department of Energy, Mines and Resources, *The National Energy Program Update* (Ottawa: Supply and Services, 1982); reports of Departments of Communications; Employment and Immigration; Industry, Trade and Commerce; and Public Works Canada, available from Supply and Services, Ottawa; and annual reports of the Federal Business Development Bank, Foreign Investment Review Agency (Investment Canada), and National Research Council, available from the Canadian Government Publishing Centre, Supply and Services, Ottawa.

Note: DOC = Department of Communications; EIC = Employment and Immigration Canada; EMR = Energy, Mines and Resources; FBDB = Federal Business Development Bank; FO = Fisheries and Oceans; ITC = Industry, Trade and Commerce; NRC = National Research Council; PWC = Public Works Canada.

The Impetus for the Use of Industrial Strategies

The incredible success of the Japanese economy in the post-war period led many nations, particularly the developing countries in the Far East, to emulate quickly the Japanese approach to policy making. Interest in industrial strategy in the older, developed industrial countries especially the United States came somewhat later, and then only because of two related events – declining domestic economic performance and changing patterns of world trade.

In the late 1970s and early 1980s as nations experienced double-digit inflation and record unemployment, few economists were prepared to advocate continued application of the traditional Keynesian remedies as a solution to the problems. The conventional wisdom at that time was that while "it is conceivable that the idea of stimulating employment by means of fiscal policy measures may yet be reborn . . . for now the old Keynesian notion of fiscal stimulus is so beset by doubts that fiscal policy, if not truly incapacitated is in a deactivated status."[23] There was a view that powerful unions, large corporations, international cartels, and government policies had made the price flexibility on which effective Keynesian programs are based a thing of the past, so "Keynesian policy [could] no longer lead to growth and full employment"[24] and would not do so until markets became more competitive and flexible. It followed, therefore, if one of the major goals of governments was to have full employment—and it was—that new policies were needed, and those policies had to be directed at dealing with the problems of individual sectors of the economy. Macro-economic policies alone, it was argued, would not solve the problems. Given such an analysis it is not surprising that policy makers and politicians began to show increasing interest in the formal formation of strategies and policies.

Another and perhaps more important reason for the growing interest in the development of national industrial strategies has been the recognition by policy makers in many countries that their domestic economic problems are the result of dramatic changes in the international economy. There is a large body of thought that national domestic policies have become, given the enormous changes in the world economy, almost powerless to influence domestic economic activity unless they reinforce international trends; that is, if they run counter to international forces they will probably be ineffective. This position is supported by the fact that such nations as the United States, Great Britain, and Canada, which have focused on trying to solve domestic problems through the application of domestically oriented policies, have had much poorer performance since the 1960s than Japan and West Germany, which have followed the opposite approach and "based their policies on the world economy, systematically [trying] to anticipate its trends and exploit[ing] its changes as opportunities."[25] Both Japan and West Germany have made "the country's competitive position in the world economy the first priority in their policies—economic, monetary and even social—to which domestic considerations are normally subordinated. . . . In fact their focus on the world economy and the priority they give it may be the real secret of their success."[26] They have clearly recognized, as have the more successful multinational corporations—Toyota, Erickson, Mercedes-Benz, IBM, and Citibank, among others—that "economic dynamics have decisively shifted from the national to the world economy."[27]

Nations and firms that have not understood and reacted to this change have lost, or are losing, world markets they have dominated for generations. If they are to recover their position they must focus on adopting strategies and programs that improve the competitive position of various industries and firms – and that means they must develop an industrial strategy.

International trade is based on the principle of comparative advantage; that is it pays a nation to manufacture those goods it can produce most inexpensively and trade them for products it needs and wants. For most of the twentieth century, Western industrialized countries had a comparative advantage in manufacturing primarily because of the high productivity that resulted from the efficient use of machinery and technology. Since World War II, however, this has changed. Once capital, information, and technology could be transferred almost instantaneously from region to region, patterns of world production began to be determined more and more by human creativity, the nature of the work-force, education, management ability, and capacity to adapt. These factors in turn are greatly influenced by public policy toward education, organized research, savings and investment, and so on. Public policies, therefore, not natural resources, have become the modern cornerstones of comparative advantage. Policy, not natural resources, "explains why eighteen million Taiwanese export the same as 130 million Brazilians and about four times as much as 75 million Mexicans, even though Mexico is located next door to the world's largest market and Taiwan is 6000 miles away."[28] What is true for the production of manufactured goods is also true in the development of natural resources. Third-world countries are applying modern technology to extract their natural resources, and they are placing them on world markets at competitive prices.

Changes in comparative advantage have enormous effects on domestic economies. They determine a country's ability to export, so any changes create pressure for the movement of resources among industries, at least at the margin, which in turn affects patterns of employment. Moreover, if the changes are sufficiently large, domestic producers may lose not only their sales in international markets but also their share of the domestic market as it becomes advantageous for domestic consumers, given the change in costs, to fill their needs from foreign sources.[29] Changes in the pattern of automobile production throughout the world in the 1970s and 1980s illustrate precisely what happens when comparative advantages alter.

When an industry suffers a loss of market share, whether international or domestic, there is always a demand from the losing industries for the government to implement some type of policy. When industry loses international market share, the demand is for export subsidies, low interest rate loans, and international insurance. When it loses domestic market share, the cry is for tariffs or quotas. The pleas for protection are accompanied by claims that foreign competition is unfair – foreign wage rates are lower, foreign governments subsidize output, foreign competitors are stealing jobs. And they are always bolstered by the argument that the affected industry is important for national defence (steel), for national prestige (airlines), or most often, to provide jobs (automobiles and textiles). Finally, if all else fails, it is argued that there must be time for adjustment to the new conditions. Usually business and labour together make the case for preserving the *status quo*, and the pressures on governments to do so are immense.

Counter-arguments may be made that markets should be allowed to operate, that firms and industries that do not accommodate to change should fail. This may be true, but such arguments are almost irrelevant against the pressure that mounts to assist firms in trouble by providing bail-outs, subsidies, or tariffs.

Yet, protecting the *status quo* over any lengthy period of time is impossible. Countries that depend heavily on trade for their well-being cannot avoid the consequences of changing world production patterns. The policy challenge is to find ways to adjust to the changes within a framework of political and social institutions, which by and large are designed more to protect people and corporations from change than to encourage adjustment.

Because of these developments – the loss of confidence in Keynesian economic policies as a means of ensuring domestic economic prosperity, the increasing importance of the world economy in causing change, and the dramatic shifts in comparative advantages occurring throughout the world – governments everywhere are searching for new ways of achieving their economic goals. Developing coherent industrial strategies based on a consensus about goals has become more and more the accepted way of doing so.

Some General Characteristics of Industrial Strategies and Programs

Every industrial country has some industrial programs in place, and a few have well-designed, well-articulated, and practical industrial strategies in operation. Although, they are constantly changing, and a program or strategy appropriate for one country or time may be inappropriate for another, certain general observations apply to most national industrial programs and strategies. Many are obvious and trite, but all are important.

Industrial Strategies

1. It is impossible to develop strategies in a democracy unless all sectors of society and all regions of the nation agree on the broad economic goals of the country. This occurs only when people have confidence in their institutions of government and the national leadership.
2. Industrial strategies cannot be effective unless there is strong and mutual respect between leaders of the private and public sectors.
3. For industrial strategies to be effective, a cadre of technically well-qualified public servants must be involved in their preparation and operation. This requirement is met in Japan, for example, by the constant interchange of top executives among public and private sector organizations.
4. Industrial strategies are never successful if private sector business leaders are unwilling to support them and private sector financiers are unwilling to participate in their financing when appropriate.
5. The people who are to implement the policies must be involved in their formation and operation from conception to completion.
6. All participants must feel a sense of urgency that there is an overwhelming need for the creation of strategies to deal with problems of great importance. The urgency may be expressed through psychological as well as economic measures. The leaders of France, for example, at one time invoked the concept of the "grandeur of France" as a basis for the general acceptance of a strategy designed to transform France from an inefficient, tariff-protected agricultural country to a major, industrial exporting nation.
7. Industrial strategies designed to promote change within the economy will be successful only if individuals and organizations affected by the change perceive that the costs and benefits from the changes are distributed fairly.
8. Usually, private sector companies that consider themselves politically and socially indispensable to a nation are less likely to adapt to changing market conditions than are companies under no such illusions. This attitude is endemic also among nationalized enterprises.

Industrial Programs

1. To be successful, industrial programs must be concentrated. In most Western industrialized countries the degree of direct support to the industrial sector is modest. It is normally much less than the support to agriculture or to

housing, and it never approaches the amount spent on social programs. Such a use of resources is probably appropriate, but it reduces the resources available for industrial policies, so funds must be concentrated to ensure that the most important objectives are met. If research and development, for example, is to be subsidized, the subsidies should be sufficient to make a difference. It is impossible to do everything; choices must be made.

2. It is difficult to develop specific programs for multi-product, multi-company industries. Programs work best when they are designed for industries with a few large firms producing a few standard products.
3. Industrial programs designed to support one industry usually (1) are a response to extraordinary social and political considerations, (2) directly countervail against market forces, (3) support the inefficient as well as the efficient firms, and (4) are very difficult to terminate.
4. Because it is extremely difficult to determine the costs and benefits from specific industrial programs, it is imperative to have (1) precise objectives for policies, (2) constant monitoring of results, (3) plans for ending programs that do not work, and (4) plans for phasing out programs once they have (if ever) achieved their objectives.
5. Because domestic programs have international consequences, it is imperative to assess, before they are imposed, their implications for other countries.

All these conclusions support the view that industrial policies and strategies, to be useful, must "enhance the flexibility and resilience of markets in the face of change"[30] and must be concerned with how the costs of change are shared. Policies must be designed not to keep the inefficient organizations in operation, but to ease the transition of organizations and their resources into other activities. The test for industrial strategies, therefore, is how they facilitate change – not how they prevent it.[31]

In a democratic society there is constant pressure on all governments, regardless of their political tone, to take action to influence individual sectors of the economy. The only way of avoiding the creation of a crazy-quilt of makeshift industrial policies is to have a national consensus on the objectives of national policy and to develop programs in harmony with the objectives.

If there is to be progress in developing an industrial strategy, there must be broad understanding of what a contemporary industrial strategy is all about and what it is expected to help achieve. It is not particularly constructive to have discussions intermeshed in rhetoric about its implications for government involvement in the economy. Every government in Canada since that of Sir John A. Macdonald has enacted policies that impinged on the operation of the private sector, and it is highly likely that governments in the future will do so as well. A modern industrial strategy is concerned about how government intervention takes place—where and why. Recognition of this fundamental fact is a necessary precondition for effective consultation between business, government, and other sectors of society about the policies necessary to ensure a strong and prosperous economic future for Canada.

Notes

1. For one businessman's view of the conference see J.H. Panabaker, "Does the Deficit Really Matter?" address to the Financial Executives' Institute, Kitchener, April 1985, pp. 1-5.

2. For the purpose of discussion in this chapter the term *national economic strategy* is intended to reflect the overall economic goals of the nation and the policies designed to achieve them. *Industrial policy* refers to programs directly associated with manufacturing activities (as opposed, for example, to agriculture or fisheries).

3. The fact that the support for an explicit national economic strategy in the United States is not strong has a certain influence on the attitude about the need for a strategy in Canada. Canadians should not, however, be overinfluenced by the U.S. experience. It must be remembered that "continental scale makes the U.S. a network of diverse country-sized regions – some long developed, some recently industrialized [and] on this count . . . the U.S. differs from smaller scale [nations]" R.D. Norton, "Industrial Policy and American Renewal," *Journal of Economic Literature* 24 (March 1986, p. 23) in that major economic adjustments are more easily accommodated. In addition, subsidies and benefits in Canada are, unlike in the United States, essentially reservation wages – true entitlements – so they often act, when they exceed available wages in other areas, as true barriers to labour mobility.

   It may be possible in a country as large as the United States to achieve through market the "creative destruction" that Schumpeter shows is so important to progress. In Canada, however, the unwillingness to accept the consequences of the market, and the protection of all sectors and regions of society against change, may have resulted in a situation where continued growth and prosperity is limited because of social and institutional structures. Canada and the United States are very different in size, institutions, and structure. Therefore, what is essential and appropriate in one country may be altogether inappropriate for the other. For a discussion of these points, see Norton, "Industrial Policy."

4. For a bibliography of Japan's economic progress in the post-World War II period see Chalmers Johnson, *MITI and*

the Japanese Miracle: The Growth of Industrial Policy, 1925-1975 (Stanford: Stanford University Press, 1982), pp. 367-380, and Chalmers Johnson, "Introduction: The Idea of Industrial Policy" in *The Industrial Policy Debate*, ed. Chalmers Johnson (San Francisco: Institute for Contemporary Studies, 1984), p. 5. The literature on industrial policies and strategies is incredibly extensive. For a good discussion of many of the issues as they pertain to Canada, see the series of monographs on various aspects of the topic published by the Ontario Economic Council, particularly William G. Watson, *A Primer on the Economics of Industrial Policy*.

5. Hiroya Ueno, "Industrial Policy: Its Role and Limits," *Journal of Japanese Trade and Industry* (July-August 1983), p. 34. Quoted in Johnson, *The Industrial Policy Debate*, p. 6.

6. Lester Thurow, "An Immodest Proposal for Canada," *Canadian Business* 56, (April 1983), pp. 64-65.

7. For a discussion of the growth of government, see James Gillies, *Where Business Fails* (Montreal: Institute for Research on Public Policy, 1981), pp. 2-7.

8. Calculated from Statistics Canada, *National Income and Expenditure Accounts*, various issues.

9. Royal Commission on Financial Management and Accountability (Glassco Commission), *Progress Report* (Ottawa: Minister of Supply and Services Canada, 1977), p. 17, and Statistics Canada, *Federal Government Employment, Oct.-Dec., 1985* (Ottawa: Minister of Supply and Services Canada, 1986) p. 20.

10. Richard M. Bird, W.M. Bucovetsky, and D.K. Foot, *The Growth of Public Employment in Canada* (Montreal: Institute for Research on Public Policy, 1979), p. 23.

11. The information on Crown corporations is taken from B.E.C. Boothman, "In Business for Canada: The Strategic Behavior of Canadian Controlled Enterprises" (manuscript, Faculty of Administrative Studies, York University, Toronto, 1985), unpaged.

12. The reorganization and nationalization of the East Coast fishing industry illustrates the point perfectly. See Michael Kirby, "Restructuring the Atlantic Fishery: A Case Study in Business-Government Relations," *Business Quarterly* 50 (Summer 1985), pp. 115-118.

13. For the Japanese figures, see Johnson, *The Industrial Policy Debate*, p. 11.

14. Charles L. Schultze, "Industrial Policy: A Dissent," *The Brookings Review* 2 (Fall 1983), p. 9.

15. See, for example, Herbert Stein, "Don't Fall for Industrial Policy," *Fortune* (November 14, 1983), p. 66. For a contrary view, see Stuart E. Eizenstat, "Industrial Policy: Not If But How," *Fortune* (January 23, 1984), p. 183.

16. George J. Stigler, *Production and Distribution Theories* (New York: Macmillan, 1941), pp. 320-387. The happy condition is known as Pareto's optimum. It should be remembered, as Keynes pointed out, that there can be equilibrium at less than full employment and, of course, there is no assurance that markets will always, or ever, operate under conditions of perfect competition. Indeed, the pressures on government to create monopolistic and oligopolistic market situations is probably much greater than the pressure exerted to ensure that markets operate under conditions of perfect competition.

17. John Kenneth Galbraith, *Economics and the Public Purpose* (Boston: Houghton Mifflin, 1973), pp. 110-154. Economists have debated for years the extent to which competition prevails in different markets in various economies. Galbraith makes a distinction between the planned and unplanned portions of the economy. The planned, by his definition, consists primarily of large corporations; the unplanned, by small businesses. Stigler's research, which is extensive, suggests that competition in the U.S. economy is more pervasive than generally assumed. Most analysts of the industrial segment of the Canadian economy conclude that perfect competition is far from pervasive.

18. Alfred Breton, *A Conceptual Basis for an Industrial Strategy* (Ottawa: Economic Council of Canada, 1974), pp. 11-32.

19. R.G. Lipsey and K. Lancaster, "The General Theory of Second Best," *Review of Economic Studies* 24 (1956-1957).

20. Joseph L. Bower, *The Two Faces of Management* (Boston: Houghton Mifflin, 1983), p. 180.

21. Breton, *A Conceptual Basis*, p. 19.

22. R.G. Lipsey, "Summary and Conclusions," *Industrial Policy for the 1980's: A Symposium* (Toronto: Queen's Park, Ministry of Industry and Trade, 1982), p. 116.

23. Edmund Phelps, quoted in Bruce R. Bartlett, "Industrial Policy: Crisis for Liberal Economists," *Fortune*, (November 14, 1983), p. 83.

24. Bartlett, "Industrial Policy," p. 86.

25. Peter F.Drucker, "The Changed World Economy," *Foreign Affairs* 64 (Spring 1986), p. 791.

26. Ibid.

27. Ibid.

28. Johnson, *The Industrial Policy Debate*, pp. 8-9.

29. Charles Pearson and Gerry Salembier, *Trade, Employment, and Adjustment* (Montreal: Institute for Research on Public Policy, 1983), pp. 7-11.

30. Organization for Economic Cooperation and Development, *Positive Adjustment Policies: Managing Structural Change* (Paris: Organization Adjustment for Economic Cooperation and Development, 1983), p. 8.

31. Much of the success of Japan's policy is attributed to the skill with which the Japanese have been able to move resources out of less-effective industries into more-effective new uses. Moreover, "no group is expected to be completely unselfish or to advocate policies that might cost it money, power, of votes . . . each group is, however, expected to fit its self-interest into a framework of national needs, national goals, national aspirations, and national values" (Peter F.

Drucker, "Behind Japan's Success," *Harvard Business Review* 59 (January-February 1981), p. 86.

Chapter 3:

A Nineteenth-Century Strategy for a Twenty-First-Century World

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To claim, as many do, that in a pluralistic country like Canada, characterized by an open economy and very different regions, that it is impossible to have some type of integrated policy designed to achieve predetermined goals is to deny Canadian history. The Fathers of Confederation, confronted with the growing strength of the United States at the end of the American Civil War, had the vision of building "a transcontinental economy in the face of regional divisions and the threat of United States penetration at key points."[1] They fulfilled their vision through the development and application of public policies. A condition of the Maritime provinces entering into Confederation was an agreement that the newly formed federal government would construct a railroad linking them with central Canada. The government of Sir John A. Macdonald assisted in the building of the Canadian Pacific Railroad, thereby ensuring that British Columbia would become part of the nation.

In 1879 Macdonald actually formalized his strategy in the National Policy, which consisted of "a framework of integrated national policies [tariff, immigration, transportation] designed to enlarge the internal circulation of goods and to increase the interdependence of the several regions."[2] Governments ever since, regardless of their political stripe, have used the power of the state to build and strengthen the nation. As a consequence the most widely accepted interpretation of Canadian history assigns to the state the major role in stimulating economic growth and nation building, a role it surely could not have fulfilled without some consensus about how the nation should develop.[3] Indeed, Canada, perhaps more than most countries, exists as a nation because of a vision and because of public policies that made the vision a reality.

What is truly remarkable is not that a national economic strategy has been important to Canada's development but that the economic strategy Macdonald adopted in 1879, in many important respects, is, a century later, widely accepted as still the appropriate one for Canada. In 1970 when the young bureaucrats in Prime Minister Trudeau's office suggested that a new national economic strategy should be developed, the old-line public servants responded that none was necessary because Canada's economic fortunes had been and were, in the broadest sense, determined by geography and history. The senior officials in the Department of Industry, Trade and Commerce, vigorously supported by those in the Department of Finance, argued strenuously that Canada's economy has been and would always be based on selling resources, mainly to the United States, on protecting manufacturing in central Canada, and on providing support for regional development, though the last had to be done with great care.[4] A decade later, *The Statement on Economic Development for Canada*, the document that presumably was to guide economic policy making through the 1990s, was built on the same premises.

The persistent popularity of the belief that Canadian economic policies must be tied to resource development and modest manufacturing protection is not based on quixotic worship of the past. Nor is it based on the almost universal conviction among Canadians that the nation's heritage is its rich supply of natural resources and its opportunity the existence of vast markets in the United States. Rather, its longevity is the logical result of the historical pattern of growth and development of the Canadian economy and a very powerful interpretation of Canadian economic history – the staple thesis – which has greatly influenced the thinking of policy makers for at least half a century.

A large part of the modest debate about a national economic strategy that occurred in the 1960s and 1970s was not, therefore, on the question whether there can be a strategy for Canada. It was generally accepted that there was one. The real issue then, as now, is whether a strategy designed in the nineteenth century and applied in the twentieth is appropriate for the twenty-first. This is still the major question policy makers in both the private and public sectors must address.

The More the Change, the More of the Same

Canadian economic development throughout the past 100 years lends support to the position that Canadian economic policies are, to a considerable degree, predetermined by geography and resources. Canada's economic history is a story of the discovery, development, and some would say exploitation of natural resources – the famous staples. Furs and fish, forest products and minerals, pulp and paper, natural gas and oil have been the key factors in Canadian development. The extent of world demand for these products, at one time or another, has always been a critical factor in Canada's growth.

The effect of the demand for each resource on the development of the nation has, of course, been different. Fur trapping and fishing did not contribute much to settlement and growth; in fact, fur traders opposed it. Wheat farming, however, was clearly a nation-building activity.[5] Mining and forestry were significant in speeding the development of some of the more remote regions of the nation, as was the production of gas and oil.

Staples production has always been for export and has basically been financed by capital from outside the country. Before Confederation most of the funds came from Great Britain, and most of the trade was with Britain and other European countries. Exports to the United States were substantial during the period of free trade in the 1850s , but the United States was not the largest market for Canada's goods until 1883 and was not the major supplier of capital to Canadians until 1926.

During the nineteenth century the development of staples was accompanied by some manufacturing activity – but not much. In 1900 only 76,000 manufacturing firms existed in Canada, and of these only 14,000 had more than five employees.[6] A beginning, albeit a very modest one, had been made in the production of pulp and paper, chemicals, steel, rails and rolling stock for railroads, but Canada's growth and prosperity were linked to its capacity to trade the products of its natural endowments.

With the outbreak of war in 1914, the pattern appeared to change. Industrial production increased, and between 1914 and 1918 war materials worth more than $1.5 billion were produced. After the war, manufacturing activity continued to expand. Between 1920 and 1928 the production of electrical equipment doubled, and the output of automobiles increased from 94,000 vehicles to more than 260,000.[7] The rapid increase in the use of cars significantly increased road building, and because of the boom in the United States, funds were readily available to anyone who needed capital to finance expansion. The development of hydroelectricity reduced costs, and tariffs provided protection, so manufacturing grew. By the mid-1920s secondary manufacturing contributed almost 40 per cent to the domestic product, nearly twice as much as primary industries.[8]

It should be remembered, however, that even with this substantial expansion, manufacturing, by international standards, was still small in scale and was designed primarily to serve the needs of the relatively small domestic market (and some of the other British Empire countries) with an array of consumer products similar to those available in the larger American market to the south. Manufacturing firms were not, with very few exceptions, actively engaged in exporting.

In the 1930s world demand for wheat, lumber, newsprint, fish, and metals declined sharply. Canadian exports fell by one half in value and one quarter in volume. The country plunged into such a deep depression that "steel and automobile production fell to less than 20 per cent of capacity in 1932, production of agricultural implements and industrial machinery fell by two-thirds and output of electrical apparatus and supplies by over half."[9] National output dropped by some 30 per cent, and economic activity did not approach the 1929 level again until 1939.

During the Depression various efforts were made to revive the economy, including enacting policies to stimulate international trade through preferential tariffs on goods traded within the British Empire, but all failed. The Canadian economy could not recover until there was a major upsurge in demand for basic resources from the United States, Great Britain, and other European countries; and such an upturn did not take place until the outbreak of World War II in 1939.

During the war the resources of the economy rapidly became fully utilized. Enormous expansion took place in the production of aluminum, rubber, aircraft, uranium, ships, and steel – all essential in a war economy. By 1945 the patterns of production and employment, as well as the distribution of population, were substantially different from what they had been in 1939. Instead of being primarily a rurally dominated society – politically, culturally, and economically – post-war Canada was a relatively sophisticated, urbanized nation. The standard of living increased dramatically, and with it came a reordering of priorities. Education and manpower policies, science and technology, museums and symphonies, productivity and output all became important. The era of simply surviving was over, as was the era of the isolated community. Canada was no longer a pioneer country.

In spite of all the surface change and the change in the sources of employment (indeed, Canada was one of the first post-industrial societies[10]), the country's basic, underlying structure remained unaltered. Almost 25 per cent of the gross national product was still generated through trade, one of the highest proportions of any country in the world; and the pattern of trade was still the same – the export of staples and the import of manufactured goods. The more the economy seemed to change, the more it remained rooted in the patterns established in the nineteenth century.

And so it continued during the post-war period. "One of the basic reasons why Canadian economic progress was more rapid than that of most other countries during the [1950s was] . . . the special dynamic stemming from the prosperity and high level of activity in the export and resource industries which directly account[ed] for about one-quarter of new capital investment"[11] and the vast proportion of exports. Yet despite reduced tariffs, increased specialization, improved transportation and communication, which led to a great increase in the volume of world trade in manufactured goods, and the effective removal (by the war) of Germany and Japan as international competitors, Canadian manufacturers were not able to, or at least did not, seize the post-war opportunity for expanding into world markets. Perhaps the small size of the Canadian domestic market, the short Canadian production runs, the style of Canadian entrepreneurship, and the foreign ownership of many Canadian-based firms precluded Canadian industrialists from competing internationally. Whatever the reason, they did not; and Canada's international trading pattern, in terms of goods traded, was much the same in 1960 as it had been in 1860.

During the next two decades, little changed. Although domestic economic growth was strong in the 1960s – much of it accounted for by manufacturing output – a large industrial sector competitive in world markets did not develop. The automobile industry was the exception. Because of the special terms of the Auto Pact, which rationalized production on a continental scale, exports of cars and parts from Canada to the United States increased dramatically.

What was true during periods of strong economic growth was equally true during periods of recession. In the 1980s as the price of oil soared, the volume of world trade dropped; and most nations, including Canada, experienced a rapid decline in real growth and a rapid rise in unemployment. Through it all the underlying structure of the Canadian economy did not change; Canadian manufacturing firms, with some notable exceptions, still were unable to compete in international trade. Highly manufactured products (excluding automobiles and parts) accounted for only 12 per cent of all Canadian exports, about the same amount in dollars as fish and farm products. Five of the top nine industries in terms of value added (that is, the increase in value created by the manufacturing process) were associated with natural resources, and all the firms, though large by Canadian standards, were small by international ones.[12]

At the same time, the early 1980s, Canada was the largest producer in the world of asbestos, nickel, zinc, and potash; the second largest of gold and molybdenum; the third largest of gypsum, platinum, copper, lead, and iron ore. It was a major producer of pulp and paper and of forest products and was one of the few countries capable of being self-sufficient in all types of energy, including oil and gas.

For more than a century, through booms and depressions, war and peace, Canada's course of development did not vary. The sources of employment changed, the standard of living increased, and the distribution of population altered. But beneath it all, Canada remained a nation heavily dependent on international trade in natural resources and related products, and most of that trade was with one country. Given such a history, it is easy to understand why the conviction persists that Canada's economic destiny is to be a commodity-trading country with its prosperity contingent on the demand for its products in the United States.

Often neglected in such analysis, however, is the influence of public policy on Canadian economic development. Whether different policies would have markedly altered economic development is an untestable hypothesis, but it is incontestable that the policies put in place were largely designed to foster resource development. Depending on the natural wealth of the nation appeared to be the logical thing to do. Moreover, such an approach to policy making always seemed to be correct; it was virtually unchallengeable because it was supported not only by history but by an interpretation of Canadian economic development so widely accepted that it overwhelmed any contradictory view. The extent of the theory's acceptance, and its continual acceptance, give credence to Keynes's proposition that "the ideas of economists and political philosophers . . . are more powerful than is commonly understood."[13] Certainly, throughout the past half-century, a single idea about economic development had an enormous impact on the thinking of policy makers in Canada and on the policies they effected.

The Power of an Idea

During the 1920s and 1930s two eminent Canadian scholars, W.A. Mackintosh of Queen's University and Harold A. Innis of the University of Toronto, "separately and simultaneously worked out an explanatory framework for Canadian economic history."[14] Both stressed the importance of staple products as the driving force in Canadian development and which they defined as bulky, semi-processed, natural commodities with a high weight/ volume to value ratio, produced for export. The essence of their theory (if it can be called one) is that:

> Canada developed on the strength of a succession of staple trades, from the cod fishery of the sixteenth and seventeenth centuries and the trade in beaver pelts . . . through the timber trade . . . during the early nineteenth century, the wheat staple of mid-nineteenth century Ontario and early twentieth century western Canada to the nonferrous metals, pulp and paper, and hydro-electric power sectors. [They argued that] Canada lurched forward from one staple dominated era to another. . . . Though the staple might change, certain broad features remained the same: external dependence upon markets, capital, migrants and technology, and the accumulation of overhead expenses . . . which burdened succeeding stages with heavy fixed charges.[15]

In their emphasis on staples they developed a unifying theme for the study of the development of the Canadian economy.[16]

Interestingly, the two originators of the thesis reached different conclusions about the ultimate destiny of an economy relying on staples and the policies that reinforced their production. Mackintosh, more of an economist than historian, took the position that dependence on staple production did not substantially change the traditional patterns of national development subscribed to by classical economists.

The classical explanation, which is widely accepted, is simply that new nations import capital to foster development, and as they do, they have an unfavourable balance of trade; that is, they import more than they export. As the imported capital is used productively, however, developing nations begin to export more than they import and are, therefore, able to begin to repay their foreign debt. Eventually, all the earlier borrowings are paid off, and the nation becomes a net exporter of capital. Finally, in what is known as the mature industrial stage, a nation earns so much from interest and dividends that it once again imports more than it exports.[17]

Mackintosh was convinced that Canada would experience this type of linear development. Innis, more the historian than economist, was not so sure. He argued that "the sheer weight of committed resources to staple production seemed to ensure a lengthening rather than a diminution of the lines of dependence"[18] and that, therefore, complete reliance on staples might not in the long run lead to mature industrial development. At best, the two who established the staple thesis were ambivalent about the nature of the development predicted by the theory.

Regardless of who may be correct, there is no doubt that the influence of the thesis on policy makers was profound. Innis had little direct impact on the development of policy, but Mackintosh was active in Ottawa in various capacities, and the students of both became top-level policy makers. For better or worse, the concept of the staple thesis dominated policy making in Canada for almost half a century.

The Staple Thesis and Public Policy

Acceptance of the staple thesis automatically resulted in certain policy positions. It meant that: first, no policies should ever be adopted that would restrict the availability of capital, regardless of its source, for the development of the resource industries; second, no tariffs should be imposed that would increase the cost of production of commodities for export; and, third, all efforts should be directed at increasing the volume of international trade in commodities. The consequences of these positions are clear: the unrestricted importing of capital led to a high degree of foreign ownership; the lack of protection for industries dedicated to the production of machinery and high-technology products meant that none developed; and the continual trade-off of access to the Canadian market for manufactured goods in exchange for access to foreign markets for raw materials led to a higher and higher proportion of the domestic market being supplied by offshore producers.[19]

Of course, measures flowing from the premises of the thesis did not constitute all the economic policies that were adopted. Far from it. In no way did acceptance of the staple thesis with its high level of economic determinism lead Canadians and their policy makers to the conclusion that there was little that public policy could do to influence the course of economic activity. To the contrary, perhaps more than most, "no matter how badly it worked, Canadians were determined to use the force of government to attempt to make themselves rich by policy."[20]

The objectives of Canadian domestic economic policy in the post-war period were to attain and maintain full employment with price stability, to reduce the regional disparities in income, to have an effective system of social security, and to foster a reasonably just distribution of personal income.[21] Since World War II, with modest exceptions, the basic means for fulfilling the employment and price stability goals was a judicious use of Keynesian macro-economic policies. Nowhere in the world were Keynes's policies more assiduously followed than in Canada, and for most of the post-war period they worked reasonably well. At least until the late 1970s and early 1980s, the Canadian economy, in terms of job creation and price stability, performed, by any standard, very successfully.[22]

Keynesian policies, however, were simply not designed to help achieve some of the other goals for the economy. They did not lead to a lessening of regional disparities in income, nor were they effective in dealing with other serious economic problems, such as low productivity in many industries, the alleged shortage of research and development, and the persistent imbalance in the current account of the balance of payments. Consequently, a host of programs created to solve these problems, along with the agencies to run them, were introduced in the first three decades following World War II. In 1973, for example, a separate Department of Industry was organized (shades of John A. Macdonald who tried to form such a department in the 1880s) to promote the development of industry, to support research and development, to administer incentive programs for industry, to promote better design, and to assist Canadian industry in becoming more efficient.[23] A department of Regional and Economic Expansion was created to coordinate and promote programs to improve the economic performance in slow-growth regions of the nation.[24] A Ministry of State for Science and Technology was formed in 1972 in response to the view that something must be done to stimulate research and development in Canada. And, among other agencies, a Ministry of State for Small Business was organized.

In spite of the unending organizational changes in government, the development of an incredible number of new programs, the creation of hundreds of Crown corporations, and the expenditure of billions of taxpayers' dollars, many of the economic problems remained unresolved. In the mid-1980s, regional disparities in income had not changed substantially from what they were in the mid-1970s, and changes that had been effected were the result of resource development and pricing, not government measures. Productivity was low; research and development was slight compared with that in other countries; and personal distribution of income had changed little. By no measure, in these areas, was the Canadian economy much better off in the 1980s than in the 1960s.

All these policies, including the major Keynesian ones, were enacted in such a fashion that they did not affect any of the fundamental policies flowing from the premises of the staple thesis. Those policies were untouchable, and the rigorous adherence to them had inevitable consequences for the Canadian economy. One was a high level of real growth and a high standard of living for Canadians; others were less positive.

Challenging the Conventional Wisdom

In the 1950s several theoretical questions were raised about the accuracy and relevance of the staple thesis.[25] Economists examining the history of national development concluded that while exports can lead to growth and can stimulate national development, it does not always follow that a large volume of exports, relative to the gross national product, necessarily results in the maturing of an economy. If exports are to be the impetus for development and growth in a nation, they:

> . . . must engender domestic capital formation, promote change and assist in the efficient allocation of resources. Obviously, the speed of development and growth is a function of the size of the gains from trade – the greater the gains, the greater the growth. However, large potential gains from trade, in and by themselves will not guarantee that a nation will automatically reach economic maturity.[26]

Impressed by this line of reasoning, and distressed by the imprecision of the staple theory, several scholars in the 1950s began empirically testing some of the hypotheses underlying the theory. From his studies, K. Buckley concluded that the driving force in the Canadian economy in the late nineteenth and early twentieth centuries was not the export of staples but domestic capital formation.[27] Following up on Buckley's work E.J. Chambers and D.F. Gordon "uttered the ultimate heresy, [by] arguing on the basis of a clearly specified theory that the wheat boom probably accounted for only a relatively insignificant [8 per cent] proportion of the growth of the Canadian economy between 1901 and 1911."[28]

The attack on the staple thesis led to a great academic debate, but above all, "the progressive demolition of the staples theory without a comparable effort at the construction of a new synthesis has left the field in a state of confusion."[29] Possibly more importantly, the scholarly skepticism was accompanied by (perhaps it created) a body of opinion that reliance on policies based on the premises of the staple thesis had locked Canada into a state of immature industrial development, as Innis predicted it might.

Whether a re-examination of Canadian economic history leads to a rejection of the staple thesis as the appropriate interpretation of Canada's past development is interesting but not entirely relevant. What is important is the growing recognition that, although the economy experienced high levels of growth during the century when the policies flowing from the thesis applied and the standard of living of most Canadians increased, the progress was accompanied by related developments that by any measure have been detrimental to the economy. As Canada approaches the twenty-first century, it is a nation with an open economy that:

- depends heavily on international trade
- imports large amounts of capital
- usually has a deficit in its current account of the balance of payments
- does not have an internationally competitive manufacturing sector (except in automobiles and parts, a special case)
- imports most of its technology
- has a high volume of foreign ownership of productive resources
- has 80 per cent of its trade with one country, and
- many believe that the strong linkages with the U.S. economy have made it impossible for Canada to pursue economic policies substantially different from those of its southern neighbour.

Most of Canada's economic problems derive, either directly or indirectly, from the almost chronic deficit in the current account of the balance of payments and very low productivity in manufacturing. There is increasing evidence that unless these two problems can be solved, it is highly unlikely, given the changes in the world economy, that the Canadian economy will continue to grow in the future as it has in the past.

Neither the current account nor the productivity difficulties are new. Concern has been expressed about them for years, and from time to time, depending on the political climate, specific policies have been suggested and occasionally enacted to deal with them. However, because the problems of both the current account of the balance of payments and productivity are a result, at least partially, of policies based on the premises of the staple thesis, all efforts to solve them have had to be justified against the conventional wisdom and tradition. Consequently, they have, by and large, been unsuccessful. At best they have been appropriate for dealing only with the symptoms or consequences of the problems rather than the underlying causes.

Minor Policies for Major Problems: (I) The Chronic Imbalance in the Current Account of the Balance of Payments

It has long been a basic tenet of economic policy makers in Canada that the nation's growth and prosperity depend on a steady supply of foreign investment; therefore, very few measures have ever been adopted to restrict overall capital inflows. As a result, a high proportion – the highest of any modern country – of various sectors of the Canadian economy are owned and controlled by foreigners. It is estimated that by 1976, 68 per cent of the petroleum and natural gas industry, 55 per cent of mining and smelting, and 55 per cent of manufacturing were controlled (that is, more than 50 per cent of the voting stock was held) by citizens of other countries. Within these sectors the ownership of certain segments was much higher: for example, automobiles and parts, 96 per cent; chemicals, 74 per cent. Although the total amount of foreign ownership varies from year to year, there is no disagreement that the amount of foreign ownership, by any standards, is extensive.[30]

The primary source of foreign investment in Canada for most of this century has been investors from the United States. As to be expected, most of the investment has been directed toward the development of products that American industry needs – metals, wood products, gas and oil – as well as toward the establishment of manufacturing plants to serve the portion of the Canadian market protected by tariffs. Unlike much of the early British investment, which was in the form of debt, the majority of the American investment has been as equity.

It is understandable that during the early years of Canada's existence capital would be imported to finance development. After all, in a pioneer economy there is no excess of savings for investment. Normally, however, as an economy matures, funds are generated for investment and the retirement of foreign debt. Such is the traditional pattern of national economic growth.

But Canada did not follow this pattern. One hundred years after the founding of the nation, investment capital continued to come into the country at record rates, with a commensurate increase in foreign ownership. Canadians apparently have always been willing to force the rate of national development at a faster pace than they themselves can or at least are willing to pay for. In essence, they have been prepared to sell their assets (resources and ownership of industry) to achieve a higher standard of living than they can or will generate through their own savings. And government policy, based on a strategy founded on the staple thesis, has supported these actions. At some point, however, the inevitable consequences of such a strategy have to be faced.

Foreign investors receive a return on their investment in the form of interest and dividends, and the amount of such payments has an effect on the current account of the balance of payments and on exchange rates.[31] Theoretically, the growth and development generated by new investment lead to a sufficient increase in exports to earn the foreign exchange necessary to service the debt. In Canada, however, the reality is different from the theory. In only four years between 1953 and 1982 did Canada have a favourable balance on current account with other nations of the world. This, of course, does not mean that Canadians did not export more than they imported. The balance of trade—that is, the relationship between exports and imports—is almost always favourable to Canada, but it is normally not sufficiently in surplus both to pay for imports and services that Canadians acquire from other countries and to service the debt. Canada still is, therefore, after 100 years, in an immature stage of economic development. The pattern of employment and the culture of the nation have changed dramatically, but the basic economic reality of Canada has not. It is still an underdeveloped country in its economic relationships with other nations, particularly with the United States.

The consequences of this situation for Canada near the end of the twentieth century are great. Many sectors of the economy are under foreign control; the country is unable to operate an economic policy fitted to its domestic needs; and most significant, the real standard of living of Canadians inevitably must decline as living costs rise, because the costs of imports increase as the exchange value of the dollar falls.

Over the next two decades, the situation could become critical. Because Canada's competitive advantage in mineral and agricultural production is declining, the share of manufactured products in world trade is increasing, and the U.S. economy is being restructured, it is unlikely that the Canadian dollar will strengthen, in the long run, against the U.S. dollar. As this happens the proportion of foreign exchange earnings used to service debt will be even higher (since much is denominated in U.S. funds), leaving even less to pay for imports of goods and other services.

There is, however, as is always the case in economics, an alternative point of view. It can be argued that as long as exchange rates are allowed to fluctuate freely, there can be no serious balance-of-payments problems. As the deficit increases, other things being equal, the value of the dollar in foreign markets will fall, which leads to fewer imports (because their prices rise) and more exports (because their prices fall), and an equilibrium is reached. It is the function of the exchange rate, as it is of any price, to clear the market.

Exporters, of course, applaud a low value of the dollar because it stimulates exports. However, continuous devaluation of a nation's currency vis-à-vis other currencies, historically, has not proven to be a viable way to ensure domestic prosperity. As the exchange rate falls, the entire cost structure of the nation increases. The precise point where the trade-off between advantages and disadvantages from a falling exchange rate occurs depends on the actual structure of the economy; but at some point, the increased level of exports generated by a declining currency is offset by the increase in the domestic costs of production, also generated by a falling rate.

Exchange rates do make a major difference in trade, but they should not be used as a substitute for policies designed to make the domestic costs of production of goods produced for export truly competitive with those of other producers. It would be unwise for Canadians to believe that the maintenance of a freely floating exchange rate will solve all Canada's trade problems; keeping a truly floating rate is a necessary but not a sufficient condition to ensure future Canadian prosperity.

Canada is between a rock and a hard place. It must export more to service its foreign debt, but evidence suggests that this will be difficult to do because world markets are changing and Canadian costs are high. In turn, part of the reason for the high costs is the low value of the dollar in foreign markets. If attempts are made to increase or maintain the value of the dollar by importing capital, in the long run the problems become more severe.

Underlying all this is the perplexing question, why has Canada never become a mature industrial nation? Why cannot Canadian industry, and the Canadian people, produce sufficient goods and services for export to transfer Canada from a net borrower to a net lender? Why cannot the Canadian economy earn enough, after 115 years, to finance its own development? What kind of policies must Canada have to eliminate the deficit in the current account of the balance of payments and still sustain strong economic growth?

Four Decades of Dealing with the Balance-of-Payments Problem

Because the balance-of-payments problem is to some extent linked with foreign ownership, successive governments in the post-war period have attempted to resolve some of the payments problems through modifying the effects, either real or perceived, of foreign ownership on the operations of the Canadian economy. To do so, however, has not been easy, because it always involved challenging the conventional wisdom about the need for capital in the country, the significance of foreign investment, and the fundamental tenets of the staple thesis. Conflicting views of national independence become entwined with the debates, which were usually resolved, as most issues are, more on political than economic grounds.[32]

By the mid-1950s, however, primarily because of the sheer increase in the volume of new capital inflows generated by the discovery of oil and gas, serious reservations began to be expressed about the consequences of foreign ownership for the economy.[33] The catalyst for the concern was the plan by the Liberal government to support the building of a pipeline to transport natural gas from western Canada to the central Canadian markets.

The Pipeline Debate

The politics of the pipeline are among the most dramatic in recent Canadian history, almost the most complicated, and in many ways the most important.

It had been known for years that natural gas was present in western Canada in great abundance. As early as 1937, the government of Alberta ruled that the province would export no gas outside the province – a foreshadow of 1979 – without assurance that there was a sufficient supply to meet domestic needs. This condition was fulfilled in 1951, and the Provincial Conservation Board began to permit some exports to the United States. In 1953, however, it was decided that there should be no further export of natural gas until all Canadian needs were met. Such a condition, obviously, had no meaning unless gas could be delivered to central Canada, and this required the construction of a pipeline across the nation. The federal government decided that any line to carry Canadian gas (1) must run through Canadian territory, (2) must carry only Canadian-produced gas, and (3) must not be a conduit for export of gas to the United States.

The capital for such an expensive project had to come, it was believed, from the United States. Two companies applied to build the line: Canadian Delhi Oil Limited, which was controlled by the Murchison interests of Texas, and a Canadian-owned Winnipeg company. Delhi agreed that they would not seek government assistance for the project, that they would not carry U.S. gas, and that they would not export gas to the United States. The Winnipeg group, however, wanted permission to sell some gas to the American market. Eventually, a merger was arranged between the two groups, and permission was granted for the export of limited amounts of gas to the United States, a condition deemed necessary to ensure the financing of the project. Neither the federal nor the Alberta government would guarantee, however, that export licences would be granted when the pipeline was completed; it would depend upon the estimates of supplies at the time.

At this juncture another group, headed by Frank McMahon of Calgary, proposed to build the project without subsidy and without the need for guarantees for export. The government, however, turned down the McMahon proposal and agreed to lend Delhi – the Murchison company – a sufficient sum to finance construction from the Alberta border to the eastern boundary of Ontario. The government of Ontario and the federal government had already agreed that a Crown corporation would be organized to build the line across northern Ontario with the understanding that upon completion it would be leased to Trans Canada (the operating name for the Murchison group) on terms that would make the early purchase of the line by the American interests relatively easy.[34]

When the legislation required for the project was brought to Parliament, there was great opposition, led by George Drew and eventually John Diefenbaker, to its enactment. Although the legislation was passed, as a result of the debate on June 6, 1956 and in spite of generally high prosperity in the country, the Liberal government was defeated in the ensuing election. At that point, for the first time, all political parties realized that there was considerable concern about the consequences of foreign investment in the country, concern that could be mobilized as a basis for political action.

Walter Gordon and the Rise of Canadian Economic Nationalism

While the pipeline debate was raging, the Royal Commission on Canada's Economic Prospects, chaired by Walter Gordon, was conducting some of the most extensive investigations ever undertaken of the Canadian economy. Thirty-three detailed studies of all aspects of the economy were prepared, and a final report was issued in 1958.[35]

Possibly the most significant outcome of the commission was that it confirmed Gordon's position as leading economic adviser to Lester Pearson, and when Pearson became prime minister in 1963 he appointed Gordon as his minister of finance. As a result of his work on the royal commission Gordon was convinced that the volume of foreign ownership was beginning to have a deleterious effect on the Canadian economy, that the costs were outweighing the benefits. He began, therefore, to challenge the conventional wisdom that Canada could prosper only through unrestricted importing of capital. In his first budget – a dramatic repudiation of Canadian economic history, as well as of his own party – Gordon proposed to limit, through a series of discriminatory taxes on company shares owned by non-Canadians, the volume of foreign investment coming into the country. His proposals were totally rejected, not only by Parliament, but by the business community, and, it is alleged, even by senior members of the Department of Finance.

Because of the Gordon initiatives, however, one of the few major debates on economic policy in Canadian history took place shortly thereafter at the national convention of the Liberal party in Ottawa in 1966. Gordon's position was firmly rejected by a wing of the party led by Mitchell Sharp and Robert Winters. Continentalism, and Canada's commitment to encouraging foreign investment in the country, was to remain the policy of the Liberals, at least for another decade, regardless of anything Gordon might try to do to change it.[36]

From Requesting to Regulating

The concern that Gordon articulated and the national debate that followed heightened political awareness of foreign ownership to such a point that no political party could ignore it. Consequently, in 1966, Robert Winters, minister of trade and commerce and a committed continentalist, published, on behalf of the government, guidelines for Good Corporate Citizenship, which the 3500 foreign subsidiaries operating in Canada were expected to follow. They called for the pursuit of sound growth and competition, the development of international markets, an increase in the processing of natural resource products to the extent practicable, proper pricing policies on sales to parent companies, more research and development, the promotion of promising Canadians to senior management positions, more disclosure of financial data, and appropriate support for national objectives.[37]

No one ever contended that the guidelines greatly influenced corporate behaviour, but the fact that they were even published indicated that foreign investment was a topic that at least could be debated. The days of unquestioning acceptance of the staple thesis were over, and the question of the appropriateness of so much foreign investment in the country was rapidly becoming a major political issue.

The Winters's initiative was not sufficient to satisfy those who believed that something of substance should be done about the extent of foreign control. Prime Minister Pearson therefore appointed eight academic economists "to analyze the causes and consequences of foreign investment, to assess actual benefits and costs and to put forth proposals for legislative consideration."[38] The report from the group – known as the Watkins report, after its chair, M.H. Watkins – was issued in 1968 and caused great controversy. The study deplored the absence of a consistent set of policies designed to assure Canadians greater benefits from the operation of multinational corporations. It called for the establishment of a government agency "to coordinate policies with respect to foreign-owned firms, to undertake surveillance of their operations and to administer the 1966 guidelines,"[39] which it recommended should be made mandatory. It also recommended that the government establish a vehicle in which Canadians could invest funds for development – the genesis of what later became the Canada Development Corporation.

As public interest in foreign investment continued to increase, the government did what governments usually do; it commissioned yet another study. The Honourable Herb Gray, a Liberal member of Parliament who later held several portfolios in the government, headed up the work and delivered his report, *Foreign Direct Investment in Canada*, in 1972. It concluded that foreign ownership or control in the Canadian economy had resulted in underdevelopment of Canadian firms, particularly in the areas of research and technological innovation, management, and export expertise. This was described by the rather unpleasant sounding world *truncated*. The report recommended that there should be, among other things, administrative "review of designated categories of foreign investment, [with] screening [of] each case in keeping with performance criteria to be set by legislation."[40]

The government accepted the report and during the Liberal minority government in 1973 created the Foreign Investment Review Agency (FIRA). FIRA was to review, before any action was taken, the acquisition of any Canadian business – including the transfer of any foreign-owned, Canadian-domiciled business from one foreign owner to another – by any foreigner when the business had assets of $250,000 or more or revenues greater than $3 million. An acquisition was deemed to be in the interests of Canada if it was compatible with national industrial and economic policies, created new investment, increased employment, increased resource processing in Canada, increased Canadian participation (that is, shareholders), increased the amount of product innovation, improved productivity, increased exports, increased competition, and stimulated technological development. The agency advised the responsible minister, who recommended the appropriate action to the cabinet.

Between 1974 and 1980 FIRA approved about 85 per cent of all applications, and in 1979-1980, about 92 per cent.[41] Many critics contend, therefore, that it did not affect either the volume or the nature of foreign investment in Canada during that period. Others, however, strongly argue that the very existence of the agency, and the costs involved in dealing with it, did in fact lead to a decline in the flow of funds to the country. Most significantly, it was alledged that its existence sent a signal that Canada was not as hospitable to foreign investment as it previously had been.

From Regulating to Nationalizing

Dealing with foreign investment, however, was not limited to indirect methods, such as reviewing proposed takeovers. In early 1980 the government of Prime Minister Trudeau took direct action against non-Canadians in the gas and oil industry through the enactment of the National Energy Policy. Some parts of the policy were brought into play through the 1981 budget, which placed an 8 per cent surtax on net corporate revenue from oil and gas production; imposed a new tax on all natural gas sales, both foreign and domestic; levied a charge designed to produce a blended price for oil in Canada that would not exceed 85 per cent of the world price on all refiners; and eliminated the depletion allowance for oil and gas exploration except for activity in the tar sands and the northern frontiers. These measures were supplemented by the controversial ruling that "the federal government [would] receive a 25 per cent buy-in option on all leases on the federally owned Canada lands. . . . at the time production permits were granted, the federal government could purchase up to 25 per cent interest in production operations by bearing up to 25 per cent of the development expenses."[42] In addition, the government announced that the state-owned oil company, Petro-Canada, would buy one of the multinational oil companies – which it did – in 1980. The program was fully in effect by September 1981.

One of the major goals of the policy was to reduce foreign ownership in the gas and oil sector to less than 50 per cent by the year 2000. To hasten the process, the depletion allowances, which were eliminated in the budget, were replaced by a series of direct incentives that varied in amount according to the degree of Canadian ownership of the applicant. Under this new regime multinational firms could compete with Canadian firms only on an equal cost basis by engaging in joint ventures with Canadian firms. The alternative was to sell out, which was, of course, what the government wanted.

The policy met with great opposition both from the industry and from other sectors. Other nations deplored it, particularly the United States, which formally protested the action against some of its corporations. The measures were, however, enacted and remained the law until they were modified by the Mulroney government.

The Return to the Status Quo

With the election of the Conservative government in 1984, the traditional Canadian position on foreign investment was reasserted. The Mulroney government believed that more investment funds were needed, so in 1985 it introduced legislation radically changing the operations of the Foreign Investment Review Agency and amending the National Energy Policy. The rallying cry of the Mulroney government to foreign investors was that Canada is again open for business.

Since the 1950s, therefore, successive governments have been concerned about the consequences of foreign investment in Canada on both the domestic economy and the balance of payments. They have enacted a series of programs and policies ranging from "directives" to almost "expropriation" in an attempt to solve them, but all have been ineffective. They have not overcome the consequences of the basic strategy of importing capital. It is evident that the negative fallout – chronic current account deficits – from the basic policies will never be eliminated through a series of *ad hoc* measures. The problem, with all its negative implications for the economy, will remain as long as the basic strategy is continued.

The question facing policy makers as they ponder the future for Canada in a rapidly changing world is whether the negative consequences of the traditional strategy are so great that a new strategy for economic policy is required. Given the changing nature of the world economy, and Canada's changing role within it, Canadians do not have the luxury of vacillating much longer on this question.

Minor Policies for Major Problems: (II) The Productivity of Manufacturing

Productivity in the manufacturing industries in Canada has been low for years. As long ago as 1957 the "gross national product per man hour in the private sector of the economy . . . [was] somewhat more than 25% below the comparable figure in the United States . . . [and] the difference in the secondary manufacturing sector was about 35-40% on a man-hour basis."[43] The situation does not seem to be improving, for it appears that from "1974 to 1976 the rate of growth of output per person-hour – or labour productivity – was very much lower than that in the period from 1958 to 1966 or in the period from 1966 to 1973."[44] In fact, in 19 of 22 industries studied by the Economic Council of Canada, productivity growth was slower in the later period than in the earlier. Between 1973 and 1981, Canada's average increase in output per year per unit of labour input was 0.4 per cent, the lowest in the industrialized world.

The cost to the economy of low productivity is, of course, great. If the productivity growth experienced between 1958 and 1973 had been maintained until 1979, for example, Canada's economic output in that year "would have been nearly $19 billion greater than it was. And in the six year period from 1974-1979 Canadians could have had $58 billion more to spend."[45]

Equally important, low productivity means high costs, and high costs mean that Canadian manufacturing industries are non-competitive in international markets. Given that Canada depends on a large volume of international trade for its prosperity and that the share of manufactured products in world trade is increasing, the inability of Canadian producers to compete has serious consequences for the Canadian economy.

Many reasons have been advanced to explain the low productivity of Canadian manufacturers; the basic ones are size and scale. Although Canadian firms within industries are large, and there is a great amount of concentration – that is, individual firms have substantial market shares (much more than in the United States, Great Britain, or most European countries) – by world standards Canadian firms are not large. The Canadian market is small in terms of population (about the same as California); and because of the limited market size, most plants in most industries, even though they are quite efficient, have very short production runs. Since most plants are used to produce a variety of products, there is a large amount of downtime and lost output. Without large markets it is impossible to have long production runs, and without large runs it is impossible to have the lowest costs. Adam Smith was correct when he wrote more than 200 years ago that the division of labour is limited by the extent of the market.

If the market were larger, would costs fall? There is some evidence that they would. Professor I.U. Zohar reports from his studies that between 1965 and 1977, 13 industry groups, out of 19 examined, operated below capacity and underutilized facilities.[46] Productivity of capital employed is low, and although Canadian manufacturing is highly capital intensive – that is, more capital is employed in manufacturing per employee than in most countries – much of the capital may be inefficiently used. For example, output per person in a large plant in Japan (100 or more workers) is 50 per cent greater than in a small plant; in Canada the difference is only 20 per cent. This suggests that capital is not being used most efficiently, and the reason for its underutilization may be the limited size of the market.

Many other factors are alleged to play a part in causing the low productivity in Canadian manufacturing firms: a relatively low amount of research and development, resistance by management to innovation, foreign ownership that inhibits branch plants from exporting, and, above all, the existence of tariffs that protect domestic manufacturers from foreign competition.

Major differences exist, of course, among industry groups and among firms within industry in both productivity and competitive performance. Some are highly efficient. The private sector steel industry is competitive in international markets and is recognized as one of the most efficient in the world; wire and cable is manufactured in Canada at low cost; fine paper is competitively priced, as is newsprint; communication equipment sells against most competition; and some chemicals and synthetic fibres are efficiently produced.

These examples, however, do little more than prove the rule. Regardless of the reasons, as Canada enters the last decade of the century, Canadian manufacturers, with few exceptions, have little competitive advantage in world trade. The figures simply reflect this reality. In 1973, except for trade under the Auto Pact, highly manufactured products (end products) accounted for only 12 per cent of all Canadian exports, and the figure was the same a decade later.

Improving Productivity through Free Trade

A wide variety of proposals have been suggested for making manufacturing more efficient. One of the most common, and the one preferred by classical economists, is simply to remove all tariff protection. Such a solution has considerable appeal.

Since the days of the National Policy, much of Canadian secondary manufacturing has been protected by tariffs. As a result it has not had to compete with international producers and, therefore, has not had the incentive to be competitive. Many analysts contend that the way to bring about efficiency is to eliminate tariffs and non-tariff barriers so that Canadian producers are forced by competition to specialize in the production of goods in which they have some advantage. Until they are forced by action of the market-place to make changes, it is argued, Canadian manufacturers will remain high-cost and inefficient.

Increasing the competition faced by Canadian manufacturers in the Canadian market-place through the removal of tariff and non-tariff barriers is, however, in and by itself, an impractical solution. Unless such action is accompanied by reciprocal moves by other countries, it would probably mean the demise of many Canadian firms. Canadian manufactured goods must be allowed to compete in foreign markets so that Canadian manufacturers can eliminate their short production runs, one of the major causes of inefficiency and high costs. It is the reciprocal removal of tariffs that is important to Canadian manufacturers.

In 1960 relatively few countries had market areas larger than Canada's. With the advent of the European Common Market and the expansion in the Far East, by 1980 the situation was reversed: most industrialized countries had markets larger than Canada's. A necessary, although not necessarily sufficient, condition for Canadian manufacturers to produce at competitive costs is access to larger markets.

Because Canada's largest trading partner is the United States, the free trade argument is frequently extended to advocacy for some type of tariff-free agreement with that country. Studies of the consequences of such a move, from the economic point of view, indicate that the economic gains for Canada from free trade with the United States would be an increase of about 8 per cent in the Canadian gross national product.[47] In addition, advocates of freer trade with the United States, as the path to efficiency and prosperity, point, with considerable justice, to the success of the Canadian Auto Pact to support their position.

Since the very early years of automobile manufacturing in Canada, when it became totally controlled by American corporations, the industry has been subject to a variety of national policies affecting production. In 1936 the government imposed the first content requirement when it permitted manufacturers to import certain components duty free if 60 per cent of the total cost of the vehicle consisted of domestic products. The result of the law was that almost all of the Canadian market was supplied by Canadian production, and there was a modest amount of manufacturing for the export market, primarily to British Commonwealth countries. It is estimated that by 1952, domestic production was equivalent to about 110 per cent of domestic consumption.[48]

By 1960, however, domestic production had fallen to about only 70 per cent of domestic sales, so the government appointed a one-man royal commission to examine why the "content rule" of the 1930s was no longer achieving the desired results. The commissioner, Vincent Bladen, recommended that the rule be broadened so that "the scope of automotive production in Canada eligible to earn duty remission on imports should include not only automobiles that are assembled in Canada but on Canadian made components that were exported for assembly elsewhere."[49] The idea, of course, was to increase the production of parts in Canada. The recommendation was accepted, and the concept was extended in 1963 so that duties were remitted on all imports of new cars and parts whenever exports of parts and cars from Canada increased over a predetermined base amount.

The Auto Pact: A Guide for the Future?

In 1965 the various agreements and arrangements affecting the automobile industry were combined into a general agreement that in effect permitted free trade in new automobiles and new parts between Canada and the United States. There were, of course, safeguards: each producer operating in Canada had to maintain the Canadian content at the percentage of the 1964 model year, had to increase assembly operations in Canada as the Canadian market expanded, and had to increase the amount of value added in the production of automobiles in Canada.[50]

The consequences of the Auto Pact for Canada have been extensive and quite favourable. It led to increased assembly of cars in Canada and to enormous expansion in the production of automobile parts, but the amount of research and design work declined. It led to marked improvement in efficiency in the production of automobiles and parts primarily because of the longer production runs. Employment in the industry expanded greatly, and by 1980 it was by far the major source of employment in manufacturing in Canada.

The increase in productivity and the rationalization of North American production to meet the needs of one North American market had tremendous impact on the Canadian balance of payments. While the balance has varied from year to year, over much of the period Canada has had a surplus in the export of automobiles and parts. In 1983, for example, the surplus was $3.29 billion[51], and exports of automobiles and parts accounted for 85 per cent of all exports of Canadian manufactured end products. Canada's international trade in manufacturing is mostly in this industry, and it is almost totally with the United States.

The success of the Auto Pact supports the argument for freer trade in manufactured goods as a means of improving the efficiency of Canadian manufacturers and, of course, of lowering costs to both Canadian and foreign consumers. It also suggests a method for solving some of the problems of the Canadian balance of payments. Moreover, because Canada, under the General Agreement on Tariffs and Trade, has followed a consistent policy of lowering tariffs against manufactured goods since the end of World War II, moving to total free trade, it is argued, is simply a logical extension of past policies (see Appendix A). Those who support such a move point to the post-war growth of the Canadian economy as evidence that freer trade does in fact mean greater prosperity. It certainly is one option that Canadian policy makers could choose as a means of solving some of the deep-rooted, indigenous Canadian economic problems.

Improving Productivity through Higher Tariffs

An alternative view is that the productivity problems in Canadian manufacturing have not developed because of the protection provided by tariffs and the size of the Canadian market. Rather, it is argued, they are a consequence of tariffs and non-tariff barriers having been too low. Between 1960 and 1970, imports into Canada doubled while the economy expanded by one third. This, some contend, is *prima facie* evidence that there is enormous substitution of imports for Canadian manufactured goods. In 1964, for example, approximately 14 per cent of all consumer electronic products sold in Canada were imported; by 1976 the proportion had grown to 63 per cent; in 1984 it was estimated at 88 per cent. Over the same period, imports of general machinery increased from 65 to 74 per cent.[52]

At the end of 1970 Canada was importing 53 per cent of its finished products duty free; the United States, 6.3 per cent;

Japan, 3.6 per cent; and the European Common Market, 3.2 per cent.[53] The amounts had not changed much by 1980.

Some believe, therefore, that the first task of policy should be to save the Canadian market for Canadian producers. Once that is done, they contend, Canada should establish programs to improve management education, to increase research and development, to lessen labour-management tensions, to ensure that government procures goods and services from Canadian producers, to provide special tax treatment for Canadian firms, to require more processing of natural resources by Canadian firms in Canada, and to require foreign-owned manufacturing firms to export more.

The strongest proponents of this view have been the Committee for an Independent Canada and the Science Council. They argue that "Canada is not in a position to entertain the risks of significantly altering its commercial stance as it applies to secondary manufacturing without prior refurbishing of its industrial capability."[54] Moving toward freer trade is equivalent, according to this position, to committing economic suicide, to destroying any viable manufacturing sector in the country; it is not the way to improve productivity for Canadian manufacturing.

Solving the Intractable Problems

Economics is about trade-offs, and the trade-off from a century of Canadian economic policies based on the premises of the staple thesis has been two apparently intractable economic problems—deficits in the current account of the balance of payments and low productivity in manufacturing—in exchange for one of the highest standards of living in the world. Obviously, Canadians have had no difficulty in making the trade-off; they have chosen a high standard of living over a surplus in the current account every time.

Canadian policy makers have been aware that by building the economy on natural resources, and on the policies that flowed from such a choice, they were precluding Canada from developing a strong industrial sector. But it was a price that they, and the Canadian people, seemed very willing to pay. From time to time attempts were made to deal with the productivity and balance-of-payments problems through such measures as the Auto Pact, the Foreign Investment Review Agency, and the National Energy Policy; but judged by their effects, they have to be considered minor policies for dealing with major problems.

Policies were never put in place, with the possible exception of the National Energy Policy, that seriously impeded the flow of capital for development; and tariffs were non-existent or were kept low on machinery and technology used in the production of raw materials. At international negotiations Canadian officials supported measures that removed barriers to trade, and there has been no appreciable shifts from these major positions over the years.

In light of the fact that producers in third-world countries are challenging the historic competitive advantage Canada has experienced in the production of many natural resources, that competition in agricultural markets is growing, that the share of manufactured products in world trade is increasing, and that the U.S. market – Canada's largest by far – is changing, new policies are necessary for Canada. A high-cost economy, such as Canada's, with an incredibly large burden of foreign debt, will not, unless there is a remarkable shift in the terms of trade, be able to sustain its high standard of living through the export of natural resources produced at relatively high costs. Consequently, finding solutions to the intractable problems in the current account of the balance of payments and the low productivity of the Canadian manufacturing sector is essential if the Canadian economy is to grow in the future.

The efforts of the past have proven that these major problems cannot be solved through the application of minor policies. Finding solutions must start from nothing less than the identification of the premises that must underlie Canadian economic policy making for the next decade. It is quite clear that the nineteenth-century strategy that was used in the twentieth is inappropriate for the twenty-first.

Prescribing solutions to economic problems is not difficult – there are almost as many solutions as there are economists. Getting a consensus about goals, developing policies to achieve the goals, and translating policies into actions is a different matter. These are the challenging tasks. For good or ill, Canada's future economic prosperity depends, to a large degree, upon the capacity of Canadian political and business leaders to work together to create a new consensus about the appropriate economic goals for the nation. To do so will be difficult, but it has been done before; and with wisdom, skill, leadership, and flexibility, it can be done again.

Notes

1. W.T. Easterbrook, "Recent Contributions to Economic History: Canada," in *Approaches to Canadian Economic History*, ed. W.T. Easterbrook and M.H. Watkins (Toronto: Macmillan, 1978), p. 261.

2. W.A. Mackintosh, *The Economic Background of Dominion-Provincial Relations* (Toronto: McClelland and Stewart, 1964), p. 179, quoted in H.V. Nelles, "Looking Backwards: Interpreting Canadian Economic Development," in *Se Connaitre: Politics and Culture in Canada*, ed. John Lennox (North York: Robarts Center for Canadian Studies, York University, 1985), p. 25.

3. I am acutely aware of the debate among historians about the correct interpretation of Canadian economic history. Not all accept the traditional explanation of Macdonald's policies. Indeed, "the tendency of recent scholarship is to challenge the notion that the Canadian government after Confederation promulgated unified, clearly-thought-out and successful development policies. The National Policy, for example, is a term that has been used incorrectly in the existing literature of Canadian economic and political history. Its proper use is to describe only the protective tariff implemented by the Macdonald government in 1879 . . ." (see Michael Bliss, "Forcing the Pace: A Reappraisal of Business-Government Relations in Canadian History," in *Theories of Business-Government Relations*, ed. V.V. Murray [Toronto: Trans-Canada Press, 1985], p. 109). Such a position is in direct contradiction to that of H.G.A. Aitken that "the economic policies which were to strengthen the political skeleton [the BNA Act] are of prime importance . . . these measures are known to Canadian historians as the "National Policy", a term applied in a narrow sense to the system of protective tariffs adopted in 1878, and in a broad sense to the general strategy of defensive expansionism adopted by the new federal government after 1867" (see "Defensive Expansionism: The State and Economic Growth in Canada," in *Approaches to Canadian Economic History*, ed. Easterbrook and Watkins, p. 204.) Bliss may indeed be correct in his assertion that there never was a coherent strategy, but the fact that there has been an overwhelming acceptance of the proposition that one once existed has clearly had an impact on the evolution of Canadian

economic policies. The reality is that generations of Canadian policy makers believed that there was such a policy, and the belief, for good or ill, influenced their policy-making decisions. The arguments for a national strategy put forth in this volume do not rise or fall on the interesting but not entirely relevant question of whether or not Macdonald had such a policy; that is a question for the historians. See Glenn Porter, "Recent Trends in Canadian Business and Economic History," in *Enterprise and National Development*, ed. Glenn Porter and Robert Cuff (Toronto: Hakkert, 1973).

4. Richard D. French with Richard Van Loon, *How Ottawa Decides: Planning and Industrial Policy Making, 1968-1984*, 2d ed. (Toronto: Lorimer, 1984), pp. 111-114.

5. The successful settlement of western Canada was greatly aided by the development of new strains of quickly ripening wheat in federally sponsored Agriculture Experimental Farms – an early example of the significance of research and development.

6. Figures relating to the historical development of the Canadian economy are from D.H. Fullerton and H.A. Hampson, *Canadian Secondary Manufacturing Industry* (Hull: Queen's Printer and Controller of Stationery, 1957), p. 13.

7. Ibid., p. 17.

8. Christopher Green, *Canadian Industrial Organization and Policy* (Toronto: McGraw-Hill Ryerson, 1980), p. 4.

9. Fullerton and Hampson, *Canadian Secondary Manufacturing Industry*, p. 18.

10. Canada was one of the first post-industrial countries in the sense that a higher proportion of the labour force was employed in the service trades than in the manufacturing and primary sectors.

11. Fullerton and Hampson, *Canadian Secondary Manufacturing Industry*, p. 34.

12. The top industries were pulp and paper, iron and steel, machine and equipment manufacturing, motor vehicles and motor vehicle parts, sawmills, smelting, communications equipment, petroleum refining, and certain types of commercial printing.

13. J.M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), pp. 383-384.

14. Nelles, "Looking Backwards," p. 24.

15. Ibid., pp. 25-26.

16. W.T. Easterbrook and M.H. Watkins, "Introduction," in *Approaches to Canadian Economic History*, ed. Easterbrook and Watkins, pp. x-xii.

17. For a good discussion of this theory, see H.B. Killough and L.W. Killough, *International Trade*, 2d ed. (New York: McGraw-Hill, 1948), pp. 159-160.

18. Nelles, "Looking Backwards," p. 28.

19. Since the end of World War II Canada's position at international trade negotiations has been constant: it has supported the removal of trade barriers. Following the logic of the staples thesis, Canadian policy has been to give up protection of domestic manufacturers in exchange for access to markets for raw materials.

20. Michael Bliss, "Rich by Nature, Poor by Policy: The State and Economic Life in Canada," in *Entering the Eighties: Canada in Crisis*, ed. R. Kenneth Carty and W. Peter Ward (Toronto: Oxford University Press, 1980), p. 78.

21. These goals were first specified by the Economic Council of Canada, *First Annual Review: Economic Goals for Canada to 1970* (Ottawa: Queen's Printer, 1964), p. 2.

22. The annual rate of real growth during the first three decades after World War II was more than 5 per cent.

23. The departments were re-amalgamated in 1969 only to be separated again in 1982.

24. Like the Department of Industry, Trade and Commerce, this department has undergone various reorganizations. In 1982 it was merged with the Department of Trade and Commerce to create a new Department of Regional and Industrial Expansion, and the Trade Commission Service was transferred to the Department of External Affairs.

25. The entire concept of "the national policy" also underwent questioning. See note 3.

26. Charles P. Kindelberger, *Foreign Trade and the National Economy* (New Haven: Yale University Press, 1962), p. 204.

27. K. Buckley, *Capital Formation in Canada, 1896-1930* (Toronto: University of Toronto Press, 1955).

28. Nelles, "Looking Backwards," p. 28.

29. Ibid., p. 29.

30. For a discussion of the growth of foreign ownership, see John N.H. Britton and James M. Gilmour, assisted by Mark G. Murphy, *The Weakest Link* (Ottawa: Minister of Supply and Services Canada, 1978), pp. 88-90. For figures on the extent of ownership, see Peter Morici, Arthur J.R. Smith, and Sperry Lee, *Canadian Industrial Policy* (Washington, D.C.: National Planning Association, 1982), p. 37.

31. This is a very simplified explanation of the ramifications of changes in capital flows and exchange rates. For a detailed discussion of the issues, see Douglas Purvis, ed., assisted by Frances Chambers, *The Canadian Balance of Payments: Perspective and Policy Issues* (Montreal: Institute for Research on Public Policy, 1983).

32. The literature on this topic is vast. For a discussion of some of the more important contributions, see Nelles, "Looking Backwards," pp. 29-36.

33. The fact that both federal and provincial governments took action to require more processing of raw materials in Canada should not be interpreted as a concern about foreign investments. By and large, the governments did not care who owned and developed the resources as long as employment was provided for Canadians. See Appendix B.

34. For a brilliant analysis of the issue, see William Kilbourn, *Pipeline* (Toronto: Clarke, Irwin, 1970).

35. Royal Commission on Canada's Economic Prospects, *Final Report* (Ottawa: Queen's Printer, 1958).

36. Dennis Smith, *Gentle Patriot: A Political Biography of Walter Gordon* (Edmonton: Hurtig Publishers, 1973), p. 291.

37. See *Foreign Direct Investment in Canada* (Ottawa: Government of Canada, 1972), pp. 324-325.

38. David Godfrey and Mel Watkins (eds.) *Gordon to Watkins to You* (Toronto: New Press, 1970), p. 64.

39. Morici, Smith, and Lee, *Canadian Industrial Policy*, p. 40.

40. Ibid., p. 41.

41. Ibid., p. 43.

42. Ibid., p. 48.

43. Fullerton and Hampson, *Canadian Secondary Manufacturing Industry*, p. 150.

44. Economic Council of Canada, *Seventeenth Annual Review: A Climate of Uncertainty* (Hull: Supply and Services Canada, 1980), p. 89.

45. Ibid., pp. 80-81.

46. Uri Zohar, *Canadian Manufacturing: A Study of Productivity and Technological Change*, vol. 2 (Ottawa: Canadian Institute for Economic Policy, 1982), p. 207.

47. *U.S.-Canadian Free Trade: The Potential Impact on the Canadian Economy* (Montreal: Private Planning Association, 1968). For further discussion of this point, see Appendix A.

48. Morici, Smith, and Lee, *Canadian Industrial Policy*, p. 99.

49. Idem.

50. Ibid., p. 101.

51. *1983 Report on the Canadian Automotive Industry* (Ottawa: Government of Canada, Regional Industrial Expansion, 1984), Table 5.2.

52. Britton and Gilmour, *The Weakest Link*, pp. 46-48.

53. Ibid., p. 51.

54. Ibid., p. 61.

Chapter 4:

Building a National Economic Strategy through Private Sector Consultation: The Canadian Experience, 1970-1985

Although Canadian economic policy makers recognized Canada, like other nations, would always need certain types of policies for specific issues endogenous to the country, until the mid-1970s they were content to rely on macro-economic Keynesian policies, the free flow of capital, and increasing free trade to ensure the well-being of the Canadian economy. True, it was well known at that time, as it has been for years by perceptive analysts, that the economy seemed to be in a permanent state of arrested development at the level of an immature industrial nation; but this condition did not, in the opinion of the policy makers in power, call for any dramatic new policy initiatives. Rather, they believed that any adjustments to policy necessary to guarantee the optimum performance of the economy could be made within the traditional framework of Keynesian policies, resource development, and increasing access to the markets of the United States, which seemed to be ensured by the close relationship that had grown up with that country during World War II. This relationship had, at times, been tested; for example, in the early 1970s when the Nixon administration would not exempt Canada from special measures to resolve U.S. balance-of-payments problems. Nonetheless, Canadians gave little thought to the need for new economic strategies for what could be substantially new economic conditions. The economy was booming, and all seemed right with the world.

Under these circumstances, why then did the government begin efforts to examine the nature of the economy and start a process that resulted in the greatest amount of consultation that ever took place among leaders of business, labour, and government in Canadian history? Why did it in fact, if not necessarily in rhetoric, start an effort to develop a consensus about economic goals for Canada? Why did it attempt to define an "industrial strategy" for the nation? The answers are to be found, as is so often the case when governments are involved, not in economic analysis but in politics, power, and people.[1]

Prime Minister Trudeau and the Battle for a New National Economic Strategy

The development of formal consultative mechanisms in the 1970s was a consequence of two things: the election of Pierre Trudeau and the change in the distribution of influence and power that began in Ottawa in the 1960s and continued during the 1970s.

During World War II and the early post-war years, in the era of Mackenzie King and Louis St. Laurent, the government of Canada was run largely by very strong ministers supported by very strong deputies. The cabinet in many respects acted as an approving body, in that it affirmed (and occasionally rejected) what individual ministers were doing, rather than as a body for collective policy making. The principle of cabinet solidarity was based on mutual respect, or at least support. Coordination was achieved by the deputies, all of whom knew one another well and who, like their ministers, stayed in their departments for considerable periods of time. Economic policy, in all its forms, was the prerogative of the minister of finance and his department, which at that time also included the Treasury Board. It was a simpler era, with so much less government activity that the country could be managed in a personal, almost informal style.

By the time of the Diefenbaker administration, however, it was clear that attempts to coordinate and provide thrusts for the government through the informal, highly personal contacts of senior officials and the occasional use of *ad hoc* cabinet committees would no longer work. By the Pearson period, with the rash of new policies and the rise of additional government responsibilities, almost everyone recognized that new methods of administration, and particularly of coordination among departments, were essential if the policies and operations of the federal government were to be consistent.

Mr. Pearson's solution to the problem was to formalize and increase the use of cabinet committees to deal with various issues that overlapped departments. He established a series of standing committees, and by the time he retired, there were 10 such committees of cabinet, including one on priorities and planning in economic and financial matters. This committee had the responsibility of determining the thrust of government action in a broad sector and of doing many things that were previously assumed to be the responsibilities of the cabinet. With the establishment of this committee, the era of the power of the cabinet minister to act unilaterally on a host of issues was gone, and probably gone forever.[2]

When Mr. Trudeau came to power he was determined to increase the joint policy-making process even further. He wanted all cabinet ministers to participate in major policy discussions so that the principle of cabinet solidarity would be based on joint responsibility as well as joint respect. He was also determined to lessen the influence of the senior professional public servants, and, most important, he wanted decisions to be made only after careful consideration of all possible options and after analysis of the consequences of various actions was completed. With his crystal-clear mind and Cartesian logic, Trudeau believed, at least during his first administration, that government in all its forms could be rational and proactive, that is, that it could anticipate problems and, through the application of reason and orderly consultation among ministers, solve them. And he wanted an administrative structure that would make this possible.

In politics there is no such thing as a vacuum. As the influence and the power of individual departments and individual cabinet ministers declined, that of cabinet committees and the central agencies of government – particularly the Privy Council Office (PCO) – increased. The PCO, which can best be described as the prime minister's department, in the immediate post-war period, had the responsibility of managing the work of the cabinet – arranging meetings, keeping minutes, and so forth. With the changes introduced by Mr. Pearson and extended by Mr. Trudeau, however, the functions of the office expanded dramatically. From handling mostly secretarial matters and administrative chores, the PCO became responsible for serving not only the cabinet, but all cabinet committees, for preparing agendas, for writing minutes, for recording decisions, and for briefing the prime minister on what was going on. In the later Trudeau years, the PCO even prepared notes to the memoranda to cabinet, in deference to Trudeau's passion for options, on what alternative actions might be taken. An extremely complex system of documentation was developed to ensure that on all issues anyone who might have even a remote interest in a matter was informed about what was going on. In its final flowering, the process, originally designed to introduce efficiency, became slow, tedious, cumbersome, and incredibly expensive in terms of the time of ministers and senior officials.

There is an old saying that he who controls the agenda controls the decision. Although "memoranda to cabinet" were still prepared in the departments, they came to be vetted through the appropriate cabinet committee by the officials of the PCO, with the result that during the Trudeau years the agenda for government action – the thrust of government – was placed firmly under the control of the prime minister and his closest advisers in the central agencies. Mr. Trudeau, or for that matter Mr. Clark, did not have more power than previous prime ministers, because in the Canadian governmental system, the power of the prime minister has always been almost total; there are very few built-in checks and balances. But they operated very differently from their predecessors. Mackenzie King, for example, governed on the basis of long experience, superb intuition, and in a sense, almost no knowledge, it was held by the ministers and the departments. Trudeau, by contrast, governed with knowledge and through a very precise decision-making system. There were many consequences of the change in approach, but the most important was that the balance of power between the office of the prime minister and the departments was fundamentally altered.

Although the cabinet committee system was developed primarily in response to the need for more coordination in decision making, it was also designed to facilitate and improve the overall planning of government. Traditionally, this was a central responsibility of the cabinet; but as the tasks of government increased, more and more of the planning was delegated to the Committee on Priorities and Planning.[3] By the time of Mr. Trudeau's second administration, the committee was the source for initiating and considering all policy reviews, for recommending priorities for the expenditure of funds and allocation of personnel, for identifying priority problems and who should solve them, and for handling special problems that needed quick resolution. It became, in fact if not in name, an inner cabinet. The Committee on Priorities and Planning, like all cabinet committees, was advised and served by the appropriate secretariat in the PCO, a secretariat that considered its mandate to be very broad.[4]

Every prime minister brings some advisers with him to office, people with whom he has worked before and with whom he is comfortable; and usually they are different, both in their philosophy and their approach to government, from those already in the system. In Mr. Trudeau's case, many of the new appointees found their way to the secretariat supporting the Priorities and Planning Committee. The secretariat was led by Michael Pitfield, a man the prime minister greatly admired and in whom he had great confidence, so much so that he eventually appointed him clerk of the Privy Council. This group, which not only shared

Mr. Trudeau's views about government but had his strong support, soon developed a significant power base within the government.

For anyone interested in the process of government the early Trudeau times were exciting and stimulating, a period of general euphoria when it was believed that the potential of the nation was unlimited, that modern processes of administration could be applied to government, and that wise government could solve any problem. Intellectualism was the name of the game, not only in the Prime Minister's Office (PMO) but throughout the government. Cost-benefit analysis of programs was being started in the Treasury Board to ensure that taxes were spent in the most efficient manner; and officials in the Department of Finance, although less confident than they were in the 1960s that they could fine-tune the economy through Keynesian measures, saw no clouds in the economic skies.

In the PCO after 1968 it seemed only appropriate to ask the big questions: What kind of country did Canadians want? What does it mean to be a Canadian? What should government in a free, pluralistic society do? The questions were neither sharp nor the kind to which rigorous analysis could be applied. Nor were they effective political questions in the sense that they required the implementation of policies that would pay off in a relatively short time. They were not the type of questions that engaged the mind and time of a busy minister deeply involved in running a department, preparing legislation, answering questions in the House of Commons, and protecting a political base. They were at best interesting; at worst, peripheral. The attitude of most ministers was that the Priorities and Planning secretariat could deal with such questions if it wanted to, so long as the ministers themselves were not bothered too much.[5]

The officials in the secretariat to the Priorities and Planning Committee were not prepared to accept that Canada's economic future was more or less predetermined by its history and geography. They did not believe that all economic policy must reinforce the sale of resources or the protection of central Canadian manufacturing. On the contrary, they thought policies should be broad enough to provide solutions to such problems as, low productivity, regional disparities in income, and foreign ownership. The idea of developing the Foreign Investment Review Agency (FIRA) to deal with foreign investment or the Department of Regional and Economic Expansion to lessen regional disparities outside of a coherent framework of economic goals and objectives was anathema to their thinking. In addition, they were convinced that the marco-economic policies of the

Department of Finance were inadequate to meet Canada's economic needs, needs they believed could be specified and for which strategies could be developed.

The concept of an industrial strategy was precisely suited to the secretariat of the Priorities and Planning Committee. The idea of having an "integrated set of complementary measures embodying both strategic economic and industrial objectives" had irresistible appeal to a group who believed in rational government decision making, analysis of developing issues, and the setting of priorities.[6]

As a result of Mr. Trudeau's election and the continuing transfer of influence from the line departments to the central agencies, the stage was set for a battle between those who thought that there was no need for and no possibility of developing a grand economic strategy and those who believed that such a strategy was an essential condition for effective governing. Although all attempts to produce a precisely formulated, comprehensive strategy failed, it is almost certain that without these attempts the great amount of consultation that took place in the 1970s would never have happened.

Replacing the Old with the New: The Bureaucratic Battles

While stressing the need for a coordinated set of policies for dealing with Canada's economic problems, the Priorities and Planning secretariat indicated neither what the policies should be nor to what they should be limited. That task, it was argued, belonged to the Department of Industry, Trade and Commerce (ITC). Unfortunately, no one in the department had any idea what a strategy should comprise; and more important, the senior officials did not think one could be developed or was necessary.[7] They did not believe in many specifics, that is, in trying to pick winners and losers in advance (this was the task of the market), and they did not believe the government should be excessively interventionist. They recognized some of the problems that the large volume of foreign investment in Canadian firms might create, but if pressed, they would argue that foreign investment was a positive force for development and growth and that nothing should be done to discourage it, particularly if the the cost of doing so might be loss of access to foreign markets, especially in the United States. The officials believed in developing measures to meet specific needs and problems, but a grand concept requiring radical thinking, let alone action, was anathema to their philosophies. In short, many officials "felt they were being asked to do the impossible and the undesirable."[8]

Jack H. (Jake) Warren, the deputy minister of industry, trade and commerce, in particular did not believe in the concept of an industrial strategy and felt the entire venture was a mistake. But what could he do? Development of a strategy had become a major priority of the government, and it was his department's responsibility to produce one. Various memoranda to cabinet were prepared, focusing on the jumble of *ad hoc* programs of subsidies and incentives the department was administering to encourage regional development, exports, research and development, and so on; but no attempt was made to put forth a comprehensive scheme or strategy. What the department sent forward was not what the priorities and planning secretariat wanted, and so "by 1971 it had become clear in the PCO that ... Jake Warren was not intellectually in tune with the Cabinet Planning Systems's notion of industrial policy. ... By the fall of 1971 ... Warren had been given a senior diplomatic posting, amid rumours that his refusal to meet PCO expectations had been a major factor in his transfer."[9]

James Grandy, who was appointed deputy in succession to Warren, was no more successful in his attempts to please the prime minister and the priorities and planning secretariat. Simon Reisman, the deputy minister of finance, waded into the bureaucratic infighting on the side of the traditionalists, those who believed that Canada's industrial strategy was set by history and geography and that it was a waste of time to try to make explicit what everyone knew. Neither Grandy nor Reisman was successful. The search for a strategy continued, and Grandy and Reisman left the public service.[10]

After the election of 1972, in which the Liberals were returned with a minority, the central agencies were somewhat less aggressive in their demands that an explicit strategy be spelled out, but development of a strategy did remain a priority for the government. Jean-Luc Pepin, Trudeau's minister of industry, trade and commerce, was defeated in the 1972 election. He was followed in the portfolio by Alastair Gillespie, who was well aware of the problems of putting together a comprehensive statement of economic goals and how they should be obtained. Yet he knew that he must do something, so he opted for a sector approach.

The sector concept was very simple. It entailed finding the essential conditions and policies (if any) that would lead to each sector's operating at maximum efficiency. There could be no one grand strategy, according to Gillespie; rather, there would be many, one for each sector. The concept was approved by the cabinet, and Gillespie was instructed to prepare "an analysis of existing and possible sector strategies as well as an overview of Canadian strengths and weaknesses in industrial development."[11]

Gillespie believed that the most effective means of finding out what each sector needed was through consulting the leading members of the sectors. Officials in the Department of Industry, Trade and Commerce began asking various persons what they thought the government should be doing in their industry and discovered that most believed that it should be doing less. The hodgepodge of programs that had been developed to meet specific needs were perceived to increase costs and to make dealing with the government almost impossible. Most corporate leaders stated that the effect of macro-policies was far more important than the special sector programs the government was then undertaking. Gillespie's response was to recommend the establishment of a method for coordinating the vast array of proposals spewing forth from all the departments that affected business – regional development, consumer and corporate affairs, and so on.[12]

After the 1974 election, when the Liberals were returned with a majority, Donald Jamieson was appointed minister of industry, trade and commerce. Although developing a national strategy was still deemed a priority, as it had been since Mr. Trudeau's first election, other economic issues were becoming so pressing that they dominated the political agenda. Most important was the rapidly escalating rate of inflation, which the government finally attacked – against the advice of the Department of Finance – through the implementation of controls. The administrative problems of this decision left little time for battling over the "big issues," such as industrial strategy. Equally important, Jamieson knew that it was an issue where there had been no winners, and, shrewd politician that he was, decided that it was neither the time nor the item on which to build a reputation. He therefore constantly acknowledged the need, but did little about it.[13]

For Jean Chrétien, who in 1976 followed Jamieson as minister, it was a different matter. He wanted a high-profile activity as a stepping stone in his political career. Moreover, when he moved to Industry, Trade and Commerce from the Treasury Board he took his deputy, Gordon Osbaldeston, one of the most popular and clearly one of the most talented public servants, with him. Although Osbaldeston was a career public servant, he was very much of the new school; he was in no way associated with the Warren-Reisman-Grandy period. He was perceived to be competent, tough, and quite able to give the department the leadership it needed, as well as to cope with the never ending, or so it seemed, problem of an industrial strategy.

The perceptions about economic strategies facing Chrétien and Osbaldeston when the Liberals once again had a majority were much different from those in ascendancy when Warren had been expected to deal with the issue in 1970. The concept had evolved from a comprehensive, theoretical, and broad-based one to a sectoral, pragmatic, and narrow one. In spite of the diminution of hopes and objectives, the idea that Canada needed a new strategy was still very much alive, and the effort far from finished.

Osbaldeston was familiar with all the past efforts, so his approach to the question was, above all, cautious. Reflecting on the period, he stated that his primary mandate was to develop a national industrial strategy for Canada and that "I wasn't really anxious to go into the marsh into which a number of my predecessors dashed to disappear forever. We decided we would go about it another way . . . what are the facts relative to our industrial structure sector by sector? Why did it happen? If you don't like it now how do you change it?"[14] In short, he decided, with Chrétien's blessing, to ask Canadian business leaders what they would like the government to do to improve performance in their industry; and thus began the greatest consultative effort among business, labour, and government in Canadian history.

The consultative process was not, of course, beginning entirely *de novo*. In 1973 and 1974 the Economic Council of Canada organized national conferences that brought together 200 representatives of business, labour, and the public sector from 16 industrial sectors, as well as health and education. The prime minister addressed the first one, but not the second, and not a great deal came out of them. Because the sponsoring agency did not make policy, it was clear that any conclusions could, at best, be nothing more than suggestions to the government. More important, the conferences were not strongly supported by the traditional government departments; the Economic Council was moving into areas many departments believed more properly belonged to them, so the initiative was not extended beyond two years.

Osbaldeston's strategy was different. He believed in a "bottom-up" rather than a "top-down" approach. He wanted to know what industry was thinking about the way government was operating. Consequently, in 1977, under the rubric "Enterprise Canada" officials of the Department of Industry, Trade and Commerce interviewed about 5000 corporate leaders to learn their concerns. And learn they did. By and large most executives had exactly the same views they held when Gillespie consulted with them. They perceived their problems as other than sector specific: they were concerned about archaic labour laws, overlapping jurisdictions, unemployment insurance abuses, inflation, perceived inequities in the general tax system, the development of new departments, and the hodgepodge of programs no one really understood. Executives did not think government had any perception of what it was doing to business and of the consequences of many of its actions, which created rather than solved problems. Antagonism to government was strong, pointed, and very well articulated. These responses motivated Osbaldeston to recommend to Chrétien that he request permission from the cabinet, if it persisted in its desire to develop an industrial strategy, that a method be devised for including in its formation, the organizations and the people who would have to live with the strategy.

While the Enterprise Canada project was going on, Osbaldeston instructed the officials in his department to prepare profiles on sectors with which they dealt. It was soon apparent that all the information about government initiatives directly influencing various areas was not available in ITC. Osbaldeston therefore organized and chaired an interdepartmental committee of 12 deputies, from all the departments involved in economic policy, to make certain that all the information necessary for the completion of the sector studies was available to the researchers and that there was agreement, within the government, about the nature of various programs. The committee also had the indirect function of ensuring momentum for the entire project. One result of its activity was an increase in the authority and prestige of the Department of Industry, Trade and Commerce, prestige and authority that had diminished in the past few years. Some consultation about some sectors was carried on with provincial and private sector leaders; in fact, a few of the studies were prepared outside ITC, but all were coordinated within the department and given final approval by Osbaldeston's interdepartmental committee.

Although the sector studies, when finished, were conceded to be less than brilliant, they did provide a statement of what the government was doing; and since Osbaldeston was as interested in process, at this stage, as substance, they met his needs. To supplement the sector papers the Department of Finance prepared a medium-term forecast for the economy. It optimistically predicted that the real rate of growth of the economy through 1985 would be 5.5 per cent annually, the inflation rate in 1985 would be 3.5 per cent, and the unemployment rate by that year might rise to 5 per cent. It also forecast a rate of productivity improvement of 3 per cent per year. Such conclusions implied that employment in manufacturing would increase through the period of the forecast by a net of 300,000 jobs per year – a highly optimistic prediction.

Another across-the-broad paper was prepared on unemployment insurance, taxation, and labour law, but it was never published because it was considered too critical of government policies. Scenarios about the potential of various sectors under different conditions were developed through the use of an econometric model, and, predictably, for some industries they were not bright.

The Tier I / Tier II Exercise

All this work could have been jeopardized by the reorganization of the cabinet in April 1977. Jack Horner, the long-term Progressive Conservative member of Parliament from Crowfoot, Alberta, who crossed the floor of the House of Commons to join the Liberal party, was rewarded for doing so by being appointed minister of industry, trade and commerce. A western pragmatist, Horner had little use for the intellectual musings of the group in the Privy Council Office, but he did have drive and energy, and he was most anxious to succeed in carrying out the duties of a minister. Fortunately, at least for Horner, the prime minister left Osbaldeston as deputy, so the process of seeking an industrial strategy was not unduly interrupted.

By November 1977 preparatory work had proceeded to such an extent that Horner asked the cabinet for approval to establish, with the agreement of the provinces (which have a great deal of authority over many economic and business matters), 23 sectoral task forces from 21 industries, plus tourism and construction. Each task force, comprising representatives of business and labour with secretarial support from the government, would work from the documents prepared by ITC. Each was to assess the future of its sector and recommend policies for its optimum development. The 23 task forces were soon identified as "Tier I" in the consultative process.

The concept of the task force is not new in Canada. They have been used with increasing frequency since the first administration of Prime Minister Pearson. Their virtue is that they are a relatively fast and effective means of "informing public opinion, facilitating increased understanding and co-operation among sectors . . . and seeking advice before decisions are made.[15] They can be of several types and structure – government, intergovernment, parliamentary – and because they are appointed by informal executive order rather than an act of Parliament, they are not constrained by the conditions of the Inquiries Act.

The cabinet gave Horner the green light to proceed, but conditions, attesting to the government's general concern with the entire venture, were attached. It was agreed that the cabinet would not issue any announcements about the process, that cabinet ministers would not talk to the press with task force members, that all published reports and papers would be issued as ITC department papers, not official government documents, that a response would be made to all recommendations directed to the federal government, and that the provinces would be invited to have representatives at all meetings.[16]

The ostensible reason for the government's reluctance to endorse the operation as an integral part of government activity was that it was thought to be essential for the success of consultation that it be non-political. An election was approaching, and the government was not doing well in the polls (it was in fact defeated in the subsequent election in 1979); so some of the sponsors felt that the exercise might be interpreted as nothing more than an effort by the government to improve its lagging position with the electorate. Perhaps an equally strong reason for the lukewarm approach by the cabinet was that many ministers had been through the "industrial strategy wringer" before and were aware of the difficulties of working in the area. At any rate, the exercise was launched with every effort being made to make it as non-political as possible.

At meetings in December 1977, Osbaldeston won the support of all his provincial counterparts for the project. In January 1978, Horner had the same success with all the provincial ministers, except the minister from Alberta.

At the first ministers' conference in February of that year, all the premiers, with the exception of Premier Lougheed, agreed that the program should proceed, and the great consultation process was under way. The government of Alberta declined to have representation on the various sector committees on the grounds that an implicit conflict of interest existed in such an arrangement: because the governments had agreed to respond to any recommendations directed to them, it was inappropriate for government representatives to participate in the discussions leading up to recommendations. Actually, the Alberta government's unwillingness to participate was even more basic. It believed that each province should create its own economic strategy and should develop its own pattern of consultation with the private sector.[17] Moreover, for Alberta the timing was bad. In

1978, when negotiations over oil pricing were at their height, Mr. Lougheed in no way wanted to be perceived as supporting and working with the Trudeau government.

Agreement of the provinces to the program was crucial to the success of the process. It was not only important because at that time regional interests had powerful spokesmen in the provincial premiers, but also because there is great overlapping of authority on economic matters between the two levels of government. Both have their own fiscal policies, both use taxes and subsidies as incentives, both have regulatory authority over a wide range of activities, both have Crown corporations, and the provinces own the natural resources. It is clearly impossible to have any workable national economic strategy without cooperation between the federal and provincial governments.

Yet, in spite of all the possible reasons for not participating in the process, every province but Alberta agreed to the proposed consultative activity. Although it may be argued that they did so because they did not take the entire project seriously, it is important to remember that at the conference where approval for the exercise was obtained, the government of Ontario proposed the formal establishment of a National Council on the Economy, including private sector representation, and British Columbia advocated arrangements for regular meetings on the economy by the premiers.[18] The need for some type of consultative process involving business and labour was recognized and supported. Horner and Osbaldeston had what they needed.

Having finally received the approval of both levels of government, Osbaldeston was faced with yet another hurdle; labour was not eager to participate. The relationship between organized labour and the government had been strained since the imposition of wage and price controls in 1975.[19] Also, within the labour movement there was great opposition to anything that might be considered "tripartitism." The staff of the Canadian Labour Congress (CLC) did not believe they had the resources to participate effectively in so vast a project, and there was the additional concern that the CLC did not represent all organized labour in Canada.[20] For all these reasons the staff of the CLC recommended to the president, Joe Morris, that labour refuse to cooperate in the venture.

It was a major problem. There was no question that without the participation of labour the entire project would appear to be little more than window dressing. How could the future of an industrial sector be assessed and evaluated without the input of labour? Fortunately for the credibility of the process, Morris, who was coming to the end of his term as president of the CLC and who wanted to be remembered as a labour statesman, rejected the advice of his staff and recommended to the CLC convention that labour participate, and the convention supported his position.

Agreement to participate, however, did not mean the end of the skepticism on the part of labour; and much of it was well founded. Throughout the planning of the program, the Department of Labour played but a small part.[21] It was clearly an ITC operation, and while it was being set up, there was a great deal of discussion between the government and business, but none with labour. In fact, labour first learned that the sector consultation was approved and going ahead at a meeting with the prime minister and some of the cabinet in February 1978. By the time labour formally agreed to participate in the activity, all 23 chairs had been appointed; and they were, of course, all from the business community.

ITC decided that the appropriate size for a sector task force was 10 to 12 members, but final membership ranged from 11 to 47; the average size was 18. It was felt that the number of participants should be relatively few so that discussions would be frank and open. It was probably a good idea to try to keep the groups small, but in practice it could not be done. There was great pressure to extend their size or at least to allow observers to attend, so most meetings had from 20 to 25 participants, and at one there were more than 50.

The provinces were allowed members on each committee, but the representation varied widely. Ontario, Quebec, British Columbia, and Manitoba had the most participants. The federal government supplied the secretary, usually the director-general of the division dealing with the sector, and the secretariat.

Even before he had the commitment of labour, Osbaldeston, on the grounds that it was important to keep the activity moving ahead, convened a meeting of the sector chairs in Ottawa on March 20, 1978. They were informed that they and their committees were expected to examine the report already prepared about their sector, to ensure that all the facts were correct, to examine the causes (both positive and negative) for the sector's current situation, to classify the problems as a consequence of either general economic conditions or industry specific conditions, and to recommend the changes essential for the health and growth of the sector. Osbaldeston advised that the recommendations should be explicit and precise and promised that both levels of government would respond to every recommendation put forward. There was no need for consensus; minority positions and reports were quite acceptable. The meetings were to be run as professionally as possible, and he recommended that they be open to any press that wished to attend. The final reports were to be completed by June 30, 1978. They would go to a coordinating committee, which would base its recommendations exclusively on the reports it received from the 23 sector groups.[22]

There was a great deal of difference in the way the various groups functioned. Some met two or three times, others five or six; and the amount of participation by the members varied widely. In some sectors the provincial and labour representatives participated extensively; in others not at all. Some used subcommittees to look at particular issues, some did not. Some encouraged the participation of the government-appointed secretaries, others resented their presence. The final reports therefore varied greatly. The shortest was 5 pages, the longest 139; the average was 15 to 20 pages.

Disagreement grew as discussion moved from the general to the specific. Most groups felt that the background paper prepared by the Department of Finance was much too optimistic and not very useful, so there was even disagreement about the framework within which the sectors were likely to operate in the future. In spite of this, when reports were completed 8 were unanimous in their recommendations; labour disassociated itself from 11, a provincial government from 1; and in one case industry members put forward a minority report. In two others disagreement by labour was noted in the body of the report, and in one there was disagreement on one issue by industry. All in all, the reports contained more than 800 recommendations for government, 75 per cent of which were for the federal government.[23]

All the recommendations, many of which were overlapping, went to a coordinating group, quickly named the Tier II committee. It consisted of five members from labour, five from industry, an academic, and a chair from industry, plus a secretariat of three persons – one from industry, one from labour, and one from a research organization. The committee was charged with coordinating the major thrusts from the sectors and making recommendations to the governments.

The task of the Tier II committee members was formidable. They had to synthesize the mass of recommendations, assign them priorities, and make their own recommendations to government. Moreover, they were expected to have their task completed by the fall of the year.

As to be expected, a principal problem was finding areas where labour and business agreed. This was not made any easier by the fact, that the CLC, unhappy with aspects of certain individual reports, prepared an overriding document giving the general position of labour on several issues. The CLC claimed, with some justification, that labour was not represented at all meetings, because of limited staff available for the exercise, and that its views were not totally represented in the 23 reports.

As it turned out, however, the areas of agreement between labour and industry were extensive. Both groups supported the development of trading companies, new personnel studies, re-examination of labour legislation, coordination of provincial and federal fiscal policies, increase of research and development expenditures, acceptance of a national energy program, re-examination of transport subsidies, re-evaluation of the way regional development grants were made, and domestic rationalization of certain industries. Still, they could not agree on tax policies, some trade positions, competition policy, and certain subsidization programs. The Tier II committee report was delivered to the government on October 28, 1978. All and all, given the complexity of the issues and the time limitations, it was a remarkable achievement to report so promptly.

So the first part of the great consultation process was over. Business and labour had been asked to tell the government what they thought ought to be done, and they had done so. Provincial governments had been provided an opportunity to participate in the process, and most had done so. But did it matter? What did the government do in response to the recommendations?

The Government Responses

The government was, of course, committed to reply. Osbaldeston and his group decided that work on the responses would be done by government officials alone, without any further consultation with Tier I and Tier II members or contact with other industry officials. By November 1978 – remarkably soon after the delivery of the Tier II report – the government issued *Action for Industrial Growth: A First Response.*[24] In this document, which obviously had been under way before the Tier II report was submitted, the government responded to 150 of the recommendations. In addition, the government cited 36 additional policy actions either under way or planned that would affect all 23 sectors. It was implied that measures related to some of the recommendations would be in the November budget.

In February 1979 the government issued a second response, entitled *Action for Industrial Growth: Continuing the Dialogue.*[25] This report dealt with another 45 recommendations, agreeing with 40 and basically stating that the government was currently working on, or soon would be working on, the other issues. The government was unwilling to abolish the sales tax on construction material; to allow the deduction, up to a certain level, of interest payments on residential mortgages in the calculation of personal incomes taxes; to consider the introduction of a value added tax; to abolish the capital gains tax; and to consider the introduction of inflation accounting. On the other items, it was reported, the government was already taking action.

During the next few months policy positions on pulp and paper, shipbuilding, automobiles, and electronics were released. Critics stated that these policy positions did not seem to be responses directly to the Tier I reports but rather simply statements of continuing government work. There was little correlation between their contents and what the committee had recommended.

The federal government's involvement in the project came to a formal end when the rest of the responses to the Tier I recommendations were released during the spring of 1979 in a very low key manner. There were no press conferences. The reports were simply mailed to the participants from the president of the Board of Economic Development Ministers on behalf of the interdepartmental committee, which was the official sponsoring group. What began as an arduous and ambitious undertaking ended almost as a whimper, almost as something the government did not want to talk about.

The responses by the provincial governments to the recommendations directed specifically to them was at best spotty. Indeed, only Nova Scotia made an official response by the proposed deadline, May 1979; and only one other government, that of Ontario, seriously answered all the issues put to it by the Tier I committees. Ontario made its reply in August 1979 in the form of 34 booklets, 12 dealing with across-the-board issues and 22 directed specifically to the sectors. None of the other provinces replied; some had undergone changes in government, others perceived the task to be larger than their staffs or budgets could manage.[28]

Government Restructuring

Although the value of the good will and understanding created by the exercise can never be measured, some specific, measurable changes did result if not entirely, at least partially, from Tier I/Tier II.

One of the major requests of all groups—and a priority recommendation of the Tier II committee—was that government policies be coordinated. The government responded by creating a new cabinet committee consisting of the 10 ministers who held economic portfolios. The committee, known as the Board of Economic Development Ministers, was chaired by a president (the first was the late Robert Andras) who also headed a newly created Ministry of State for Economic Development, which served as the secretariat for the board. The board was mandated by the order-in-council creating it to, among other things, formulate and develop policies that have a beneficial effect on the development of industries and regions and to integrate all government programs that provide direct support to industries. To fulfil the mandate the president of the board was given a great deal of power to:

> . . . define an integrated federal approach to the provision of direct support to industry and economic development in Canada both by industrial sector and by region; review proposals by departments prior to their consideration by Treasury Board or by the Governor-in-Council; and, develop mechanisms to improve and to integrate program delivery at the local or regional level.[27]

Given this broad mandate there began to be talk about the creation of a superministry, and in a way it was. Certainly, it was perceived that the new ministry would have as significant a role in the development of economic policies affecting markets and regions as the Department of Finance had in developing overall economic policies in taxation and expenditure.

The board in many respects had more power than the Department of Finance, for the president was given the responsibility of recommending to the Treasury Board and to the cabinet how both personnel and financial resources should be allocated among different federal programs directed to industrial and regional development. In short, the president of the Ministry of State for Economic Development was to be the lead minister in coordinating the work of all the departments, except Finance, on economic matters, and he had the budget power to enforce his wishes.

Because the board had no programs of its own, only the responsibility of coordination, it was expected that it would be the place where business leaders would go to find out precisely what the federal government was doing and, perhaps more important, the place where they could make suggestions about the formulation of various policies. If regional employment programs were impinging on labour recruitment, for example, business representatives would, it was believed, go to the new ministry with their problem rather than to the Department of Labour, or the Department of Regional and Economic Expansion, or Immigration and Employment, each of which, even if it knew of the problem, would have a different solution. With one ministry the great complaint of business, that government did not know what it was doing because of overlapping jurisdictions, would be solved. With the creation of the ministry these problems were to be gone forever. Another major task of the new ministry was to improve the relationship between business, labour, the provinces, and the central government.

Reorganizations within government take a great deal of time, and it may be that the ministry might eventually have been able to fulfil these expectations. But during its short life, it was perceived to be simply another layer of bureaucratic obfuscation. When John Turner became prime minister, he abolished it, and Brian Mulroney did not bring it back. The agency charged with creating more effective consultation between sectors of the economy was discontinued at the very time consultation was being touted as the path toward solution of major economic difficulties.

Tier I / Tier II: The Final Results

What were the final results from the Tier I/Tier II exercise in consultation? Who gained? Who lost? Was it worth the $25 million it cost?

For the participants, the answers to these questions depend a good deal on their expectations when they became involved in the program.

What did government expect to get out of the operation? Osbaldeston saw the mere existence of the process as a means of improving the relationships among business, labour, and government. He was convinced that the creation of a formal setting where persons could talk together about the future of their sectors on the basis of common information would lead to better relationships. Moreover, he believed that the provision of a conduit through which labour and business could tell government what they liked and disliked about it would eventually lead to more cooperation among the groups. In addition, there is no doubt that he saw the entire process as a means of increasing the influence and power of the Department of Industry, Trade and Commerce within the bureaucracy, and sponsoring the program certainly had that result.

The chairs of the sector committees, all business executives, had different expectations and perceptions of what would be accomplished. Most believed that the purpose was to exchange information, though some saw it, despite all efforts of government to assure them to the contrary, as nothing more than an election ploy. Others believed that the purpose changed over time—that what started as a consensus-building exercise among labour, business, and government changed into a government promotion program as the election approached. Almost all believed that the purpose could and should have been more clearly articulated at the first meetings; some felt that even as the exercise started, the organizers were not entirely sure what they wanted to get out of it. For many this was understandable because it was a first effort.

When questioned two years after the event, 59 per cent of the chairs though they had learned something from the experience, 56 per cent said they had made new contracts, 34 per cent were certain that the task force they chaired had some impact, and, most interestingly, 79 per cent said they would participate in such an exercise again. By and large, for these participants it was a learning experience that led to a better understanding of the scope and involvement of the government in their industries and improved understanding of the way in which the government works. For many it provided an insight into the aspirations of the labour movement. Only 15 per cent, however, reported that they or their firms took any action as a result of their participation.[28]

The general reception to the first report of the government to the recommendations of the Tier I/Tier II committees, *Action for Industrial Growth: A First Response*, was lukewarm. Most participants did not consider reiteration by the government of what it was currently doing in various areas as a sufficient reaction to their work. Inasmuch as it was the first reply, however, most criticism was muted, except, of course, for that of the Opposition in the House of Commons. It was considered too soon to make any definitive judgment about the value of the project.

This was not the case for the second report, *Action for Industrial Growth: Continuing the Dialogue*. Industry representatives made no strong public statements, but the CLC was much less restrained. It issued a scathing press release stating that the response was totally inadequate and that the entire process had been nothing more than an attempt by the government to shore up its sagging political support. It was critical of the fact that the report was released in Toronto—an important area in the forthcoming election—by a group of ministers, a clear contradiction of the agreement that the government would not attempt to gain publicity from the exercise. Labour was extremely unhappy with the final results.

With hindsight, many of the reasons for the dubious success of the exercise are obvious. From the very first, labour was not properly involved. For truly meaningful consultation, this oversight was almost fatal. At the very least the Department of Labour should have played as key a role as ITC. That it did not lent credence to labour's view that it was not a serious player in the process and supported the presumption held throughout the bureaucracy that the real purpose of the program was to solve ITC's problem of how to develop an industrial strategy. This was believed to be the not-so-hidden agenda behind the entire proposal.

The fact that the meetings were on-the-record led some bureaucrats to be very careful about the options they put forward for the various sectors. They did not want to reveal some of their strategies because to do so might jeopardize the possibilities of success of some highly favoured, but not necessarily approved, proposals. Some executives were in the same position. They did not wish to discuss all their firms' problems with their competitors. Moreover, some industries were represented by persons who could not speak with authority for their firms because they were not chief executive officers. In some cases there were marked differences of views among industry representatives because of differences in size, location, ownership, and philosophy. These factors show that the selection of participants is key and the setting of the agenda critical.

In addition, many of the participants did not feel a sense of urgency about the process. Many of the matters that they were asked to discuss in their sectors were already being debated in other areas of the government. The members of the sector task force on the automobile industry, for example, believed that their work was less than significant, for during the time they were meeting the government appointed a one-person commission to study the effects of the Auto Pact on the Canadian economy. If a consultative process is to be valuable, the issues discussed must be urgent and the work taken seriously.

Finally, for any chance of success, such a project must have full and complete government support. This was not the case in the Tier I/Tier II operation. Persons participated, and would participate again, because it is the thing to do. However, because the exercise was largely the responsibility of ITC, and so many of the actions affecting business and labour came from the Department of Finance or one of the newer economic departments, the process was not granted the legitimacy it needed. Perhaps the most important lesson of all from Tier I/Tier II is that unless the government believes consultation is essential and totally supports it, it will have only minimal effect.

Task Forces on Major Projects and the Creation of Industrial Policy

The end of the Tier I/Tier II process clearly indicates that as the 1970s drew to a close, the drive for the development of a national economic strategy had lost much of its strength. Rising unemployment, record inflation, and dislocations because of the rapid increase in the price of oil were increasingly engaging the attention of the government. Developing a national economic strategy was no longer deemed, even by the advisers in the Prime Minister's Office, a top priority of government.

In addition, the way the aspirations of the officials in the PMO for a grand national economic strategy developed into the Tier I/Tier II sector approach reinforced the position of those who argued that the only logical, sensible, and practical way to develop a national economic strategy is through the development of a policy for each sector. A national strategy, it was argued, can be nothing more than the sum of the strategies for each of the sectors; therefore, the first step in any effort to develop national economic goals must be the establishment of major task forces on individual areas.

It is relevant to examine the results of one of the more significant, large task forces in order to assess whether the establishment of a succession of such consultative devices is a viable method for developing a consensus on the national goals for the economy.

In 1979, even before the federal government had completed its responses to the Tier I/Tier II recommendations, Jack Horner, as minister of ITC, appointed a task force to evaluate the possible economic effects of major capital projects in Canada until the year 2000. The 80 members, comprising equal numbers from business and labour, were co-chaired by Shirley Carr, executive vice president of the Canadian Labour Congress, and S. Robert Blair, chief executive officer of NOVA, an Alberta corporation.

The task force was under the aegis of the federal government, but because it was deemed so important and because so many of the matters it would be examining came under provincial jurisdiction, the central government sought and received support for its creation from the provinces. Therefore, in addition to the representatives from business and labour, representatives from nine provinces, as well as some invited observers, attended the meetings. The Construction and

Consulting Services Branch of the Department of Industry, Trade and Commerce provided the secretariat.

The function of the task force, as spelled out in its revised terms of reference, was to:

> . . . catalogue and indicate the timing of all future major projects in Canada, both public and private which are planned or in prospect between 1979 and 1999 and to enumerate the opportunities which they may present to Canada in term of (i) employment opportunities, (ii) upgrading of skills of labour and management, (iii) employment of engineering, construction and project management firms and other specialists and strengthening their international competitiveness, (iv) employment of transportation, communication and other service companies, (v) providing markets for manufacturers and strengthening their international competitiveness, (vi) strengthening the ability of the Canadian financial community to undertake the financing of major projects, (vii) adding to the growth of technology, and (viii) contributing to an industrial strategy, the strengthening of secondary industry, the improved utilization of natural resources, the stimulation of the business environment and the improvement of trade balances. . . .[29]

The task force was also to recommend "means by which the private sector . . . [can] participate in the development of future legislation, regulations and guidelines emanating from its recommendations" and to examine, in particular, ways of "encouraging and strengthening the participation in major projects by Canadian based, owned and controlled firms and of encouraging Canadian subsidiaries of foreign firms which have established core operations in Canada."[30]

The responsibility of the task force was formidable; nothing less than making an inventory of all the major projects that would have an impact on the Canadian economy over the next two decades and estimating the results of each project on various sectors of the economy. Implicit in its appointment was the proposition that large projects were essential for the prosperity of the country. Whether they liked it or not the members were operating in the shadow of C.D. Howe, who took it as an article of faith that Canada could not be truly prosperous without at least one major project under construction.

The chairs of the task force, two well-known Canadian nationalists, were strongly committed to the proposition that the benefits from the development of major projects should go to Canadians. This was to be accomplished by distinguishing between Canadian-owned companies and Canadian-based ones. The two types of companies were defined as the same in every respect except ownership. Each had a permanent Canadian presence and a Canadian head office; most of the managers and employees of each were Canadian; and a majority of each board of directors was Canadian. Also, each had a "substantial degree of autonomy with regard to key corporate functions including the mandate to carry out research and development and the freedom to compete in export markets."[31]

The distinction was drawn because it was assumed that in some way or other the foreign-owned companies, even those with the same attributes as the Canadian, would not contribute as much to the economy as Canadian-owned companies and therefore should be governed by different rules. The underlying assumption of the task force was that "foreign firms have invested in Canadian energy and other natural resource sectors mainly for the purpose of acquiring captive sources of raw materials for processing abroad. As a consequence sufficient linkages have not been established between Canada's strengths in natural resources and the manufactured goods such resources can produce."[32]

The committee identified and classified projects valued at about $400 billion that could be developed between 1980 and 1999, an amount estimated to account for about 20 per cent of all potential investment in the nation during that period. Though they did not say so specifically, the authors of the report clearly believed that Canada had a comparative advantage in resource development and that it was from the resource sector that prosperity would be generated – a return to the staple thesis with a vengeance.

The recommendations of the task force were grouped into seven rather general categories. They included a call for: formation of a Major Projects Task Force Assessment agency made up of business and labour representatives with government-appointed observers and government funding; provision of updated information about major projects; clear statements by governments and project participants of the policies they would follow to expand Canadian ownership and participation; specific action to improve training and utilization of personnel; support of good labour practices; high priority in the development of technology; and support for the development of

Canadian manufacturing and service industries.[33] None of the general goals was particularly controversial, but the policies proposed to achieve them were.

The report recommended that Canadian-owned firms be given preference over Canadian-based firms for lead roles in projects. It called for a 3 per cent premium to be charged to all projects for the development of purchases from Canadian-based suppliers and other measures that clearly discriminated against foreign-owned firms. Moreover, it accepted as fundamental that large projects require a great deal of government initiative in their development and execution.

There was considerable disagreement among the participants about the policies. The representative from Cominco Ltd., for example, dissociated himself from the report, stating, "We do not find persuasive the argument presented in support of [the formation of a Major Projects Assessment Agency]. We believe such an agency, given the complex nature of its structure and mandate and its clearly interventionist character would be counter-productive. In our opinion it would hinder rather than help industrial progress in Canada."[34] Others objected to the procurement concept because "project economics are highly sensitive to cost variations and it would be important that procurement policies recognize that one set of investors (project sponsors) should not be expected to subsidize another set of investors (suppliers) unless long term benefits to both parties are perceived."[35] Perhaps the most telling objection came from Rowland C. Frazee, chairman of the Royal Bank of Canada, who wrote:

> Long run benefits to Canada will depend in the end, on economic efficiency achieved by a market-based allocation of resources . . . indeed this is the spirit and the letter of Canada's international agreements with its trading partners. . . . There is no doubt in my mind that the operation of foreign-owned but Canadian-based firms with a record of good corporate citizenship are of substantial benefit to Canada. . . . To relegate such firms to a secondary position in terms of the opportunities to participate in the major projects under review, would in my view be both discriminatory and counter-productive . . . to the best of my knowledge no other industrialized country in the free world discriminates in these proposed ways against foreign-owned firms which have already located within their jurisdiction.[36]

J. MacNamara of Algoma Steel took the position:

> . . . that major Canadian projects will require the capital, the expertise and the technology of firms in all three of these categories [Canadian-owned, Canadian-based, and non-Canadian] if we are to engineer, design and construct major projects which will afford the most efficient production facilities in the world . . . the first step towards maximizing Canadian benefits will be to get the major projects underway.[37]

The report was presented to the government on June 23, 1981. Eventually, the government rejected the idea of a Major Projects Assessment Agency (it was not willing to give so much power to a business-labour group), and it also turned down the recommendations about procurement assessments. It did, however, create within ITC an Office of Industrial and Regional Benefits and a business-labour advisory board. A list of the industrial benefits the government thought should flow from major projects was also published.

The planners of the task force clearly learned something about effective use of the consultative process from the experience of the Tier I/Tier II exercise. Equal representation was given to labour and business; the terms of reference were clear; and the recommendations were precise. There was a sense of urgency about the entire project (though subsequent events were to prove it was somewhat misplaced). All the rules for effective consultation were applied, but, as the extensive minority reports demonstrated, it was impossible to obtain a consensus about a strategy for a relatively well-defined economic activity—investment in major projects.

The reason for the failure is easy to identify. The task force was labouring under the incredible difficulty of having to make recommendations about the appropriate role of foreign firms in major capital projects before the government had established any general policies on the issue. The task force members attempted to fill the vacuum with their own approaches, which could not be reconciled.

Industrial strategies and policies for individual sectors can and must be developed. It is clear, however, that they cannot be created outside a framework of national goals based on national consensus. Adding up sector, or for that matter provincial, strategies will not lead to an effective national economic strategy. Sector strategies must fit within and be designed to reinforce national goals. They are not a substitute for them. Consultation by sector can never substitute for consultation designed to develop a consensus about national economic goals and policies.

Making Policy without Consultation

In Canada, perhaps more than in most countries, the impact of the Organization of Petroleum Exporting Countries (OPEC) was more political than economic. Because of OPEC, throughout the latter 1970s and early 1980s the attentions of the federal and provincial governments were almost entirely devoted to solving the energy question. By the end of the 1970s, the disillusionment with the consultative process was so great that the most important policy of the early 1980s – the National Energy Policy – was created with almost no consultation whatsoever with the private sector.

In 1961 Canada adopted a two-price system for oil; prices west of the Ottawa Valley line were slightly higher than in the rest of the nation. When world prices rose dramatically, the two-price system no longer met the needs of the country, so a one-price system had to be adopted. There was, however, no consensus as to what the price should be. The producing provinces, led by Alberta, wanted the world price; the consuming provinces, led by Ontario, wanted what they called a made-in-Canada price. Alberta officials argued that they owned the oil and that they should be able to sell it for whatever they could. They believed also that the rapid increase in price provided the province with what might be a once-in-a-lifetime opportunity of acquiring revenue to diversify its economic base. The officials of the consuming provinces argued that oil should be considered a national resource (though they never took that position toward resources within their own provinces) and that it should be sold in Canada at less than the world price so that Canadian industry would have lower energy costs and therefore be more competitive in world markets. They maintained that the world price was "artificial" – the consequence of a cartel that would be illegal if it operated in Canada.

The federal government, deeply in debt, saw the new, higher price of oil as a source of tax revenue, but it was also concerned about the impact of rapid price increases of oil on inflation and employment. In addition, it was very aware of the growing economic strength of the producing provinces, particularly Alberta. Negotiating under such circumstances was not easy, and though the federal government had the power to fix the price, it did not wish to act unilaterally. There was sufficient acrimony between the central government and the producing provinces without the aggravation of forcing a price on reluctant producers.[38]

One of the first things Joe Clark had to do when he became prime minister was to negotiate a price for oil. His government had a clear set of priorities for energy: self-sufficiency in all kinds of energy including oil by 1990, ready acceptance of the fact that resources were owned by the provinces, de-escalation of the conflict between the central government and the provinces, major reliance on the private sector to produce energy, and a commitment to increase the proportion of Canadian ownership in the oil industry. In the process of searching for ways to fulfil these goals, the Clark government conducted countless meetings with provincial and industry officials. Consultation was accepted as a prerequisite to action.

Negotiations and the arrival at mutually satisfactory positions were difficult, but by the time John Crosbie, then the minister of finance, presented his budget in December 1979, tentative agreement had been reached between the federal government and the provinces on most of the major issues. All of the work, of course, came to nought when the government was defeated. The task of working out a new energy agreement in the resurrected Liberal government fell to Marc Lalonde who negotiated a new National Energy Policy.

The long-term aims of the policy were much the same as those of the Clark government's policy—energy self-sufficiency, more Canadian ownership, and a fair pricing regime. There were also other specific goals, the most important of which were (1) to reduce foreign ownership of the oil and gas sector to less than 50 per cent before the turn of the century, (2) to phase out government subsidies of oil imports, and (3) to raise money, through direct taxes on consumption, to finance takeover activities of Petro-Canada, the national oil company.[39]

The National Energy Policy was developed with little or no consultation with the industry. It was the product of the senior bureaucrats, with the support of senior officials in the Prime Minister's Office, and a few senior cabinet ministers, all of whom were committed to the proposition that there was a need for a strong, direct federal presence in the energy field. They deeply resented some of the past activities of the multinational oil companies, and they found it difficult to accept the power and competence of the officials of the Province of Alberta. They were basically economists, more interested in the economic consequences of energy policy than in the production of oil and gas *per se*. This group dominated the development of policy, and because so many of the changes revolved around tax matters, their work was done in great secrecy. The program was announced, and came into effect after a few modifications, in September 1981.

The immediate consequences of the National Energy Policy are well known. Activity in the oil fields decreased; the buy-back efforts placed a strain on the foreign exchange accounts; oil rigs left Canada; and the entire industry entered a period of sharp decline. The chances for attaining self-sufficiency in oil by 1990 were lessened, and hundreds of small Canadian companies caught between rising interest rates and falling cash flows went bankrupt.

The important point, however, is that it was a program designed by the government alone. There was little consultation, and the result was an interventionist, ineffective program that contributed substantially to the poor performance of the Canadian economy in the early 1980s. It may well be that the long-term goals of the policy were worth the short-term pain; that is a matter of judgment. But there is no doubt that the lack of consultation led to a program that did not work as anticipated and that caused great distress to a major sector of the Canadian economy and to thousands of Canadians.[40]

Why was there no consultation? Why was energy policy made without it? Given the fact that government was committed to consultation, as demonstrated by the Tier I/Tier II and the Major Projects Task Force, why did it not attempt to involve other interests in the development of the National Energy Policy?

The answers to these questions are complex. Clearly, there was a lack of trust of the industry by government officials. There was also great antagonism between the federal officials and the provincial bureaucrats and politicians. It was difficult, therefore, for these groups to work in harmony in search of acceptable solutions.

Perhaps most importantly, the stakes in the negotiations were extremely high. OPEC created enormous economic benefits in Canada and it was inevitable that there would be a struggle about how they should be shared. For the provinces who owned the resources, the rapid increase in oil prices appeared to be a one-time opportunity to escape forever the low levels of economic development that had historically been their lot. For the federal government, the high prices presented an opportunity to solve its fiscal problems. For the oil companies, higher prices were a source of cash flow to finance their much more expensive programs for exploration and development in remote areas. It was the grasp for shares of these revenues, and the related fear of changes in power and control within the country which the new wealth made possible, that made the settlement so important. These were the conditions that motivated the Canadian central government to move unilaterally to protect its interests. Because the intellectual thrust for the policy came from those who believed in intervention for the public good, consultation not only was unwanted, but was perceived to be extremely dangerous for the accomplishment of the central government's goals.

Three conclusions follow from this experience. First, who the players are does make a difference. Second, when it is a zero-sum game (that is, what one side wins the other side loses) with very high, easily identifiable consequences, there is a greater chance for power to be used without restraint. Third, consultation on even the most important of issues is not inevitable in Canada. The policy with the greatest impact on a major industrial sector and on the economy as a whole that was adopted in the early 1980s was developed and implemented with almost none. No one should take for granted that there is any requirement or perception on the part of government that the private sector must be consulted before action is taken. The development of the National Energy Policy proves the contrary.

Lessons from the Experiences of 1970-1985

Much can be learned about both the consultative process and the task of formulating an economic strategy for Canada from the consultation the executive branch of the federal government undertook between 1970 and 1985.

First what was learned about national economic strategy?

1. Federal governments during the period moved from a position of firmly denying the need for a new national economic strategy for the country to one of schizophrenia about the issue. By 1975, the position of the old-line mandarins—Grandy, Reisman, Warren—that an appropriate industrial strategy for Canada need be nothing more than encouragement of the sale of natural resources, protection of central Canadian manufacturing, and close relationships with the United States was, at the very least, considered debatable.

   At the same time, however, old ideas died hard. When the terms of trade, after OPEC, changed markedly in Canada's favour, the government quickly grasped at the possibility of generating economic growth through the encouragement of large energy projects. Indeed, the background paper presented with Allan MacEachen's budget in 1981 was based entirely on the historic Canadian staple thesis. It is almost as if politicians and bureaucrats had an abhorrence of attempting to build Canada's future on new policies. And so the schizophrenia.

2. In addition to the questioning of the adequacy of the staple thesis as a foundation for economic strategy, there was also implicit recognition that a strategy based simply on policies devoted to individual sectors of the economy was, given the changing world environment, probably not adequate. Although the emotion-laden words *industrial strategy* were never used, the idea had clearly developed in Ottawa that there could be integration and coordination of sector and regional programs only when there was some overview of what must be done. By the time all the reorganization of government, which began as a consequence of the recommendations from the Tier I and Tier II committees, was completed, there was a ministry that "combine[d] policy and . . . decision-making . . . supported by a cabinet committee with a separate secretariat answering to the chairman and with a shadow-committee of deputy-ministers."[41] All of this was put together not simply to administer a variety of *ad hoc* ventures, but rather for the purpose of trying to develop some type of national economic strategy. The president of the Board of Economic Development Ministers was specifically charged with "defining an integrated federal approach . . . [to] economic development in Canada."[42]

   Although it is true that the Ministry of State for Economic Development and the Board of Economic Development Ministers were dissolved in 1984, the very fact that they were created indicates the extent of the change in thinking that took place in Ottawa over the years.

3. By the beginning of the 1980s, primarily because of the failure of Keynesian policies to ensure full employment and price stability, governments were strongly inclined, regardless of their political persuasion, to deal with economic problems through direct government action. The classical non-interventionist position of the Department of Finance toward markets was replaced by a more activist one. Bail-outs of failing firms, subventions,

> and direct intervention were accepted as legitimate action in the economic interest of the nation. This acceptance of the use of *ad hoc* measures to meet specific problems without any framework of national goals was accompanied by increasing interest in some type of coordinating national economic strategy or policy.

During a decade and a half of consultation, 1970 to 1985, therefore, the attitudes of the federal government about economic strategy changed dramatically. There was at least tentative recognition that:

- the traditional economic policies based on the premises of the staple theory were probably inadequate for optimizing the performance of the Canadian economy in the decade ahead
- an effective strategy must start from a consensus about economic goals
- a sector approach alone was not a satisfactory method for developing a national economic strategy
- whether there is a specified strategy or not, new ideas and concepts about the appropriate economic policies for Canada were needed.

What was learned about consultation?

1. A true commitment to consultation did not evolve during the period. Many major policy shifts implemented during the period took place without consultation. Public servants, aided and abetted by politicians, dominated policy making. There is no evidence to indicate, in spite of everything that was said about the necessity for consultation, that governments felt compelled to consult about issues; and there is absolutely no indication that they were willing to devolve any real influence, let alone power, to groups within society. Consultation meant, if it meant anything, an exchange of views and not much more. The characteristics – backgrounds, training, perceptions – of those in power does make a difference in whether or not consultation will take place. If the persons in power do not want to consult, under the Canadian system, consultation will simply not occur.

2. The most important result of the consultative process in the 1970s and early 1980s was not the marginal benefits received by labour, business, and government

participants. It was the reorganization of the structure of government – the creation of the new departments, ministries, and so forth – in what in most instances was a vain attempt to solve difficult economic problems through organizational change rather than through implementation of new policies.

3. Finally, the consultative process as it has been practised in Canada, or at least as it was practised from 1970 to 1985, does not provide many clues as to how a consensus about economic goals for the nation may be attained.

The major difficulty remains. If Canada is to fulfil its economic potential in the years ahead, new economic policies must be adopted. To be effective, however, such policies must be designed to meet the goals and objectives of the nation, goals and objectives that can be formulated only by extensive consultation among government and various sectors of the economy. Given that the extensive public-private sector consultation in the period 1970-1985 was relatively ineffective, particularly in creating a consensus about appropriate goals for the nation, the central question still remains: How in a democratic society can a consensus about goals be created?

Notes

1. Much of the material in this chapter is drawn from Richard D. French with Richard Van Loon, *How Ottawa Decides: Planning and Industrial Policy Making, 1968-1984*, 2d ed. (Toronto: Lorimer, 1984); and Mark C. Baetz, "The Purpose and Influence of a Canadian Exercise in Formal Consultative Industrial Planning" (Ph.D. diss., London Faculty of Graduate Studies, University of Western Ontario, 1980). I have supplemented their accounts of the Tier I/Tier II exercise with information obtained through interviews and from a questionnaire (See Appendix D) sent to the persons, both elected and appointed, involved in the process of developing a national economic strategy in Ottawa at that time. Their recollections agree with much of French's interpretation, but they do differ to the extent that there is a widespread belief that the split among the planning areas that French delineates was far less marked than he suggests, or at least it was far less apparent at the time to many of those involved. In addition, many respondents indicate that the personal influence of Prime Minister Trudeau in the developments of that period were much greater than is apparent from French's study. Since many of those who were significant players in the events still hold, or have recently held, public positions, their comments are, unfortunately, not for attribution.

2. For an authoritative discussion of the changes in the Pearson period, see Gordon Robertson, "The Changing Role of the Privy Council Office," *Canadian Public Administration* 14 (Winter 1971), pp. 487-508.

3. During the first administration of Mr.Trudeau, the Committee on Priorities and Planning functioned more or less as its name suggests, as a true planning and priority-setting body. But after the election of the minority government in 1971, it began to have a totally new, short-term focus. The government's situation in the House was precarious, dependent upon the New Democratic Party; so the committee began to deal with all of the many problems a minority government has to face.

4. French and Van Loon, *How Ottawa Decides*, p. 46.

5. Personal correspondence and responses to questionnaire sent to most of the participants in the process. Appendix D is a copy of the questionnaire.

6. Science Council of Canada, *Forging The Links. A Technology Policy for Canada* (Ottawa: Supply and Services, 1979) as quoted in French and Van Loon, *How Ottawa Decides*, p. 87.

7. See Richard D. French, *How Ottawa Decides* (Toronto: Lorimer, 1980), pp. 109-114.

8. Ibid., p. 111.

9. French and Van Loon, *How Ottawa Decides*, p. 113.

10. Other factors in addition to the industrial strategy dispute contributed to their early retirement. Reisman resurfaced in 1985 as the principal federal government negotiator with the United States on free trade.

11. French and Van Loon, *How Ottawa Decides*, p. 116.

12. Ibid., p.117.

13. Jamieson does not entirely agree with this characterization of his approach.

14. Quoted in French, *How Ottawa Decides*, p. 121.

15. Cassandra Blair, *Forging Links of Co-operation: The Task Force Approach to Consultation* (Ottawa: Conference Board of Canada, 1984), p. 1.

16. Mark C. Baetz, "Tier I/Tier II," in *Canadian Cases in Business-Government Relations*, ed. Mark C. Baetz and Donald H. Thain (Toronto: Methuen, 1985), p. 369.

17. See Chapter 5.

18. See Chapter 5.

19. Labour representatives resigned from every position to which they had been appointed by the federal government in protest of the imposition of controls.

20. In particular, there was very little representation of organized labour in Quebec on the CLC.

21. The reason advanced most often for the Department of Labour's lack of participation in the process is that the department was perceived to be too adversarial in the interests of labour to make a meaningful contribution to what was expected to be relatively neutral proceedings.

22. Baetz, "Tier I/Tier II," p. 377.

23. Ibid., p. 376.

24. *Action for Industrial Growth: A First Response* (Ottawa: Department of Industry, Trade and Commerce, 1978).

25. *Action for Industrial Growth: Continuing the Dialogue* (Ottawa: Board of Economic Development Ministers, 1979).

26. Baetz, "Tier I/Tier II," p. 382.

27. "Proposed Order in Council, Section 18, Ministries and Ministers of State Act," (Typescript, Ottawa, Privy Council Office, 1978), quoted in French, *How Ottawa Decides*, p. 124.

28. Baetz, "Tier I/Tier II," pp. 383-389.

29. *Major Canadian Projects: Major Canadian Opportunities*, A Report of the Major Projects Task Force on Major Capital Projects in Canada to the Year 2000 (Ottawa: Supply and Services Canada, 1981).

30. Ibid., p. 67.

31. Ibid., p. 7.

32. Ibid., p. 19.

33. Ibid., p. 11.

34. Ibid., p. 71.

35. Ibid., p. 73.

36. Ibid., p. 75.

37. Ibid., p. 76.

38. For a discussion of the post-war development of Canada's energy policy, see G. Bruce Doern and Richard W. Phidd, *Canadian Public Policy* (Toronto: Methuen, 1983), pp. 458-484.

39. It is important to note that most of the provisions of the National Energy Policy could not have been put into effect so rapidly, or perhaps even attempted, if Petro-Canada had not been established in 1975. Although the national oil company was designed to operate commercially and to be self-supporting, it was also expected (1) to increase oil and gas exploration in the high-risk frontier areas and off-shore, (2) to participate in tar-sands development, (3) to ensure Canada's oil supply in case of a breakdown in supplies from the Middle East, (4) to serve as a "window on the industry," and, most important, (5) to increase the Canadian presence in the oil and gas industry, even if it meant government ownership,

    The net benefit to Canadians from the existence of Petro-Canada is open to debate, but what is not debatable is that the company expanded dramatically. By 1985 it had become the largest, fully integrated oil company in Canada operating nationally. Without Petro-Canada the National Energy Policy would have been different; but Petro-Canada did exist, and the policy went forward.

    For a discussion of Petro-Canada's development, see Larry Pratt, "Petro-Canada: Tool for Energy Security or Instrument of Economic Development?" in *How Ottawa Spends Your Tax Dollars 1982*, ed. G. Bruce Doern (Toronto: Lorimer, 1983) chap. 4.

40. For a popular analysis of this period, see Peter Foster, *The Sorcerer's Apprentices: Canada's Super-Bureaucrats and the Energy Mess* (Toronto: Collins, 1982).

41. French, *How Ottawa Decides*, p. 127.

42. See "Proposed Order in Council," in French, *How Ottawa Decides*, p. 124.

Chapter 5:

Creating a New Consensus: How Can It Be Done?

Examination of the economic policies of different countries indicates that there are two necessary, although not sufficient, conditions for the development of national economic and industrial strategies: a consensus about the economic goals of the nation and a system whereby the programs and policies required to fulfil the goals are developed with input from the people who have to carry them out. The latter requirement can be worked out, but although Canada has had a national consensus about economic goals for more than 100 years, many believe that creating a new one for this nation is impossible.[1]

They may be correct. The usual difficulties of creating an explicit national consensus in a democratic state are compounded in Canada by several unique conditions. Because of the nature of the Constitution, the central government "has neither the constitutional and fiscal power nor political legitimacy" to act alone on many economic issues.[2] Moreover, the Canadian economy is an open one (that is, it depends more on international trade than most major industrial nations); foreign ownership is extensive; the institutions of government, particularly the Senate, are not perceived to be entirely legitimate; and there is a "rivalry between resource owners and manufacturers, east and west, and levels of government."[3] As a result, in many respects the "economy has become balkanized and politics confrontational [resulting in the dissipation of] decision making resources on struggles of allocation among regions, provinces, and industries instead of building consensus around an agreed upon program of development."[4]

Developing a process for creating a new consensus must be a priority of government. Until such a process is in place there can be no consensus about goals, and without agreement on goals there can be no coordinated set of policies and programs to cope with the nation's economic problems.[5] Consequently, the imperative for finding a process for developing a consensus has never been greater. No government can afford not to try to do so, and, given the size of the stakes involved, no government can afford to fail at the task.

But how can it be done? How can a new consensus about economic goals for Canada be created?

Tripartitism: A Canadian Non-starter

Since the 1950s several methods have been proposed for developing a national consensus about economic goals in Canada. One of the most popular has been some variation of "tripartitism" whereby labour, management, and government get together and agree upon national objectives and the way to fulfil them. Such an approach, in one form or another, is very popular in Europe, and there is little doubt that within their own institutional and historical frameworks, organizations such as West Germany's Council of Economic Experts on Economic Development and Austria's Parity Commission for Wages and Prices make important contributions.[6] For several reasons, however – four of which seem to be most important – the idea has never caught on in Canada.

First, there are not now and never have been in Canada single organizations that can speak with authority for all business and all labour. The Business Council on National Issues represents the views of the chief executive officers of major Canadian corporations; John Bulloch's Canadian Federation of Independent Business represents the views of many small businesses; various trade associations speak for their members in different industries. But there is no single voice of business. Similarly, the Canadian Labour Congress represents and can speak for much of organized labour in Canada, but not for all; and, of course, it does not in any respect represent unorganized labour, which made up about 68 per cent of the non-agricultural labour force in 1980.[7] Under such circumstances it is impossible, even if it were desirable, to devolve power to the representatives of business and labour. The groups are too diverse.

Second, unlike Europe where labour is often closely associated with government, in Canada organized labour has considerable distrust of government. The Canadian Labour Congress did have representatives on the Economic Council of Canada and other government organizations, but after the imposition of wage and price controls in 1975, it withdrew from all government-sponsored groups. Through the years governments also have failed to treat organized labour as a serious player in the economic field. The evidence of this benign neglect is everywhere. In 1960, for example, when Prime Minister Diefenbaker established the National Productivity Council, of its 25 members only 5 were from organized labour, and all were named by the government.[8] In the late 1970s when the Tier I/Tier II exercise was undertaken, organized labour was brought into the process literally at the very last moment, and the Department of Labour played a minor role in the activity.[9]

For these and many other reasons, Canadian organized labour appears more comfortable in bipartisan, business-labour activities than in those in which the government is also a major participant. This was true for the Major Projects Task Force; government had only a modest, facilitating role, and labour and business agreed on a number of issues. Labour's participation in the Canadian Labour Market and Productivity Centre also reflects this attitude, for the only voting members of the board are representatives of business and labour.

Third, and most important, the evolution of the pluralistic, democratic system of government in Canada has been such that governments are expected to make major decisions and to stand or fall on the basis of their actions. Widespread consultation is not only acceptable, it is considered essential; but in the last analysis, the electorate expects the government to decide. Proposals for consultation and for restructuring government, whether through reforming Parliament or introducing new consultative mechanisms, must be based on an understanding that no government will (whether it would like to or not) devolve substantial power in economic policy making to any group or organization.

Finally, government itself is far from a single entity. There is less than total agreement on which government in a federal country such as Canada should take the responsibility for the development of a national consensus about economic goals and the policies necessary to fulfil them.

For all these reasons it is clear that tripartitism will never be the process through which a consensus on national economic goals is established in Canada. Rather, goals can be created only through a procedure whereby individuals and organizations can advance their views, or have their views put forth either by elected politicians or by representative bodies, before a group with power to develop, by itself or with other legitimate bodies, a consensus about the economic future of the country. The groups with the legitimacy for formulating a consensus in a democratic country are governments. But in this country of many governments, which government must take the initiative of doing so?

Consensus Building in a Multigoverned Country

In Canada there is no agreement as to whether the creation of a national consensus about economic goals is the task of the federal or provincial governments, or of some joint government body. Moreover, since the British North America Act is far from clear about the division of jurisdictions and powers between the provinces and the federal government, it can be interpreted to support almost any conclusion one wishes to advance.

It is argued, on the one hand, that because Confederation was based on a compact among the four founding provinces, the central government is a creature of the provinces and is, therefore, morally if not constitutionally bound to do little more than what the provinces ask it to do. According to this view each province should formulate its own economic goals, and the sum of these provincial goals should be accepted as the national one.

On the other hand, it is clear that it was neither the intention nor the expectation of the Fathers of Confederation that the central government should be subservient to the provinces. Indeed, to the contrary, they believed they were creating a strong central government and that in time the provinces would wither away. Under Section 91 of the British North America Act the federal government is given not only specific powers but all the residual ones, that is, all that are not specifically given to the provinces or not specified as joint responsibilities. In addition, the central government is given the power to disallow provincial legislation and to appoint lieutenant-governors for the provinces, as well as to make general laws for the peace, order, and good government of the nation. Many contend that it is clearly the task of the central government, with such overriding responsibilities, to set the national economic goals.

Regardless of which interpretation may be correct, the important point is that because there is such overlapping of jurisdiction and such an even distribution of power, both federal and provincial objectives must be taken into consideration in any effort to develop a national consensus about economic goals and policies. Since Canada, in economic terms, is a very small country in a highly competitive world, there would seem to be a need for the creation of overall national goals; but such goals can be established only within the context of the desire of various regions to preserve their identity and the reality that in varying degrees they have the resources to do so.[10]

Federal-Provincial Conferences and Consultation

In recent years a view has developed that the economic goals for Canada and the policies to achieve such goals can, in the broadest sense, be best worked out through formal consultation between the premiers and the prime minister at what have become known as first ministers' conferences. A substantial body of opinion holds that if a consensus is ever to be developed about goals for the Canadian economy, it will have to be done at some type of federal-provincial meeting.

In this country, where so many of the responsibilities of different levels of government overlap and are vaguely defined, federal-provincial consultation on a vast array of issues has become a condition of governing and, for many officials, almost a way of life. The first informal meeting between representatives of the two levels of government was held in 1877 when some of the premiers met to discuss matters of mutual concern with the prime minister. In 1906 the first formal dominion-provincial conference was convened to serve "as a forum for the articulation by Provincial Premiers of regional or provincial perspectives on matters which [were] substantially within the legislative authority of the Parliament of Canada."[11]

Such a meeting was perceived, as have been meetings since then, to be essential because the British North America Act made no provisions for formal consultation among the levels of government. It was assumed by the drafters of the legislation that final power was held by the central government, and if a province enacted legislation that the federal government did not want, it could simply disallow it. Between 1867 and 1907, that is precisely what the federal government did; in 40 instances it disallowed provincial acts. As the nation expanded, however, and as the provinces grew in population and economic power, "disallowance" had to be used, for political reasons, with great care. Between 1907 and 1984, the federal government disallowed provincial acts only 32 times. The last time was in 1943.[12]

The great expansion in government activity in the post-war period and the evolution of programs with joint involvement, such as health, education, and welfare, have led to an enormous increase in the amount of consultation between the two levels of government. Between 1968 and 1984, there were more than 20 first ministers' conferences, and it is estimated that officials from the two governments meet formally more than 500 times a year. The government of Alberta reported that in 1982 alone it worked, alone or with other provinces, with 110 federal-provincial agencies.

In addition to the first ministers' conferences, ministers get together regularly to discuss a vast array of joint programs; some of these meetings have even been established on a permanent basis. The work of coordinating the relationship between the two levels of government has become so great that the federal government has created within the Privy Council Office a Federal-Provincial Relations Office. Many provinces have similar structures and ministers of intergovernmental affairs. Not surprisingly, in "a number of emerging public policy areas where responsibility has not been constitutionally defined there has been increasing competition between the two orders of government as to which will be the primary actor."[13]

Not only is there extensive consultation between the federal government and the provinces, but in recent years, as the latter have attempted to coordinate their position on various issues vis-à-vis the federal government, the need for meetings among provincial ministers and officials has arisen. So widespread are these interprovincial consultative activities that they are now supported by a permanent Canadian Intergovernmental Conference Secretariat.

In addition, premiers meet regularly to exchange information, to try to get some degree of harmony in legislation (for example, to ensure that the securities legislation in various provinces is similar), and to set general policy on issues affecting all provinces—and this usually means preparing a joint position on matters relating to the federal government. As one participant in the process has described it, "We've established an industry. In the frequency and complexity of meetings, and in the proliferation of bureaucracy and paperwork connected with them, Canadian federalism is almost unique."[14]

The development of federal-provincial conferences as the focal point for attempts at policy making has brought to Canada a form of governing that has been given the imaginative name "executive federalism". It is a form that, despite its growth, is not without its critics. It is alleged that executive federalism has led to undue secrecy by governments, has diluted the accountability of governments to their respective legislatures, has created a tendency for some matters of national concern to be left off the agenda, and, most important, instead of reducing dissension, has caused continuous and unresolved conflicts between the levels of government. As Donald Smiley explains it, executive-federalism "organizes into politics the interests of governments and of those private groupings which are territorially concentrated. . . . In his stance towards other governments the federal-provincial relations specialist has a single-minded devotion to the power of his jurisdiction."[15] This view is echoed by Allan Cairns, who argues that "the support for powerful, independent provincial governments is a product of the political system itself, it is fostered and created by provincial government elites employing the policy making apparatus of their jurisdiction."[16] And this apparatus is not inconsiderable. With the growth in their wealth and commensurate power, the provinces have been able to develop public service competence equivalent to, and in some areas better than, that of the federal government; so they are quite capable of defending their interests. Unfortunately, however, "teams of people in such adversary situations are inexorably drawn into defending the interests of their side as if they were playing a zero sum game."[17]

Regardless of the problems, there is no question that federal-provincial conferences are here to stay. The "evolution of the Canadian society and of Canadian federalism has brought us to the point where governments must now work together and make deals constantly."[18] This does not necessarily mean, however, that the arena essential and appropriate for making deals and agreements on specific issues is also the most effective place for developing consensus on economic goals. The record indicates that it is not.

Consensus Building at Federal-Provincial Conferences

Although the federal government has jurisdiction over major economic affairs, its authority and responsibilities so overlap those of the provinces that a major topic for first ministers' conferences in the past few years has been the economy. For example, after the rapid escalation in the price of oil in 1972, with its positive impact on the producing provinces and its potential negative impact on the national issues of employment and inflation, the need for discussion between the two levels of government was obvious. Similarly, when the federal government decided to try to check inflation through the imposition of controls in 1975, it needed provincial cooperation for their implementation, so meetings were essential. Every time the economy performs below expectations the call goes forth, usually because no one knows what else to do, for another federal-provincial meeting of first ministers.

Probably the most important conference on the economy in recent years was held in Ottawa in February 1978. It was well planned, efficiently organized, and participants prepared properly. Federal and provincial ministers met before the main meeting to discuss matters of mutual concern, with the understanding that they would report any conclusions they might arrive at to the conference. Both federal and provincial officials prepared statements and position papers on major issues. (The ones from the province of British Columbia were extensive and particularly impressive.) Altogether more than 80 documents were released at the meeting.

The agenda reflected the planning. As well as discussion of general economic problems – the outlook for economic growth, cost of the public sector, regulations – time was set aside for reports on labour, commercial policy, energy, agriculture, fisheries, forestry, mining, tourism, and manufacturing from both provincial and federal officials who had attended the preparatory meetings. More than 280 persons, including 78 federal and provincial ministers, participated in the conference.[19]

At this so-called economic summit of first ministers there was general agreement on the primary issues: growth in government expenditures would be kept below the rate of increase in the gross national product; wage settlements in the public sector would not exceed those in the private; the tight money policy of the Bank of Canada would be supported as a means of fighting inflation; the Economic Council would study the economic effects of regulation; and the taxation of the mineral and petroleum industries would be reviewed.[20]

Finance Minister Chrétien, in what in retrospect appears to be a statement of wild optimism, reported that the federal government was acting on the assumption there would be "an average rate of growth of 5.5 per cent a year between now [1978] and 1981 . . . [and] we should be getting unemployment down towards 5.5 per cent by the end of 1981."[21] It was also at this conference that Jack Horner, the minister of industry, trade and commerce, asked for and obtained the support of the provincial premiers for the appointment of "a number of manufacturing and tourist industry task forces of about 10 or 12 members each, drawn from business and labour . . . [who] based on their own knowledge and experience . . . would be asked to recommend policy action . . . [to the government] by June 30, 1978."[22] Item 14 of the conclusions of the conference – the last item – was that "First Ministers agreed to seek out the active involvement of the private sector [including business and labour] in federal-provincial discussions on specific development programs tailored to the particular requirements of each of the manufacturing sectors."[23] Thus was approval for the Tier I/Tier II consultative process obtained.

Overriding the substantive issues, important as they were, was the question how national economic goals should be determined. Premier Peter Lougheed of Alberta put one position most bluntly when he stated that a "national economic policy cannot be equated with federal economic policy. A national economic policy must involve cooperative federalism in the fullest sense of mutually agreed upon economic policy and direction."[24] Premier William G. Davis of Ontario was equally explicit when he stated that "a prerequisite of securing our common economic objectives is nothing less than the adoption, now, of a completely fresh attitude of cooperation and continuous consultation among the First Ministers of this country."[25] Premier William R. Bennett of British Columbia recommended that the first ministers meet semi-annually as a Council of First Ministers to develop a national consensus about goals.

The federal government agreed. The Honourable Marc Lalonde, then minister responsible for intergovernmental relations, reported that the conference was "laying the groundwork for a new approach to the making of national economic policies for Canada"[26] and supported the concept of a continuing process of consultation.

All wanted continual meetings; some wanted even more. Premier Davis issued a call for the establishment of a National Council on the Economy:

> . . . as an advisory group to the First Ministers . . . consisting of the Federal and provincial Ministers of Finance and representatives of business, labour and other groups in the private sector. It would constitute an active forum of participation in which each government and the private sector would contribute its view on the economy. It would define issues and recommend policy alternatives for explicit consideration and decision by the First Ministers.[27]

He urged dialogue before decisions and recognition that the management of the economy is not the exclusive preserve of any one sector or level of government. Premier Bennett went further; he wanted each premier to designate one senior official to serve as economic coordinator for the government of the province and for these coordinators to work together as a secretariat to plan and crystallize options to be discussed at his proposed Council of First Ministers.[28]

The tone of intentions was clear. The first ministers clearly believed that, appropriately prepared, they could set the national economic goals, that they could develop the elusive consensus. Lalonde stated that he hoped a future conference "and the meetings leading up to it would provide a final basis for the elaboration of the national economic strategy which is beginning to emerge here this week."[29] Davis concluded that they could in the process "devise an economic strategy which would serve as a definitive and constructive guide to all government, business, labour and other groups."[30] All present agreed that a second conference should be arranged for fall 1978. One could only conclude that the process for the development of a consensus about economic goals, if not the substance of such a consensus, was well under way.

A great deal changed between the end of the optimistic conference in February and the convocation of the next meeting in November. The projections for the performance of the economy that had been developed for the first conference turned out to be inaccurate; the issue of the separation of Quebec now was at the top of everyone's agenda; Ontario was concerned about the competitive position of its manufacturing sector; and all were on edge about energy pricing and taxation. The cooperation that pervaded the February meeting was gone; to the contrary, there was a sense of hostility between the oil-producing provinces and the consuming ones, and between the federal government and the producing provinces. The conference turned into a forum for castigating the federal government's economic policies. Prime Minister Trudeau could not get the agreement he wanted on oil pricing, and the last agenda item on economic policy coordination was not even discussed. The simple fact was that the debate between René Lévesque and Trudeau on the role of Quebec in the federal system made compromise and progress on economic matters quite impossible.

Nothing of substance was accomplished at the conference. The reaction of everyone associated with it seemed to be that if "we must have federal-provincial conferences to coordinate economic policy, . . . there must be a better way than this."[31] Each government had its own agenda, and there was too much material, not enough time, and weariness on the part of the players. There was no sense of direction, and participants were demoralized. Quebec representatives received strong support when they suggested that there were far too many conferences. What a far cry from the euphoria of the February meeting!

To one analyst,

> . . . [the] major contribution of the economic conference of November, 1978 was to reveal the unsuitability of the federal-provincial conference format for dealing with such a complex matter as the economy of Canada.

> It [is] simply beyond human capability for first ministers and their officials to deal with the myriad of complex problems involved in federal-provincial economic relations in the format of a conference lasting a few days.[32]

The federal government apparently agreed with this assessment, for there was not another first ministers' conference on the economy until February 1982 when again the results were meagre. Statements that unemployment, inflation, and productivity must be dealt with were the major output. The need for a mechanism to obtain consensus among the major sectors of the economy on what the economic goals of the nation ought to be was not even discussed.

Such conferences are not appropriate places for policy determination because "the process is too ill structured to provide incentives for the achievement of compromise and consensus."[33] Moreover, they are not held regularly, the agendas are not designed to ensure productive participation, and television makes them more of a spectacle than a serious forum for discussion. Perhaps more important, throughout the 1970s premiers saw themselves as the official opposition to the federal government, and that perception made compromise and consensus building difficult. The federal government acquiesced to the holding of such meetings because there did not seem to be any better forum for the intergovernmental discussion of issues.[34]

Conferences, especially the public ones, are basically political in form, and the representatives are there not to obtain consensus (unless it is politically advantageous to do so) but to defend and improve their positions. Nowhere is this better illustrated than by the experiences in 1978. At the conference in February, the participants gave great support to the need for consultation and cooperation. Indeed, developing a national consensus was to be a major part of the next meeting in the fall. Because of changed economic and political conditions, however, when the next meeting convened the premiers were so involved in provincial affairs that the question of how to create a national consensus about economic goals, let alone about the nature of the goals, was never discussed.

Everyone who has ever participated in a federal-provincial conference, if they are honest with themselves, knows that the compromises necessary to achieve national economic goals cannot be made at such meetings. The conferences are, in fact, perceived by many to be zero-sum exercises where there are winners and losers. They have become display cases for power and influence. They are not useful for dealing with long-term problems. They are political exercises where regional politicians reinforce regional positions.[35]

It is true that administrative procedures can always be changed and improved, and it may be that with different players, different political parties in power, and more good will, federal-provincial conferences can be made to work. After all, the first conference chaired by Prime Minister Mulroney, in Regina in the spring of 1984, appeared to be harmonious and cordial. Still, no major issues were resolved at that meeting, and though new players and attitudes may make the meetings more pleasant, there is as yet no evidence that they will make them more productive.

So the problem persists. There is a need for consultation about economic goals and policies, but the consultative process between the two levels of government in these areas has traditionally not worked well. It has worked so poorly, in fact, that by the early 1980s there had "developed a relationship of deadlock in federal-provincial relations that has set the pace for other relations . . . [with] the cumulative effect . . . [that we have] a lumbering inefficient system. . . . to maximize efficiency and productivity . . . [the Canadian system] is a formula for disaster."[36]

The deadlock may have been broken by the election of a new government in 1984; however, if the past is prologue to the future, it is not likely that it has. The characteristics inherent in federal-provincial conferences make it highly improbable that they will ever be usable forums for the development of a national consensus on economic goals.

The Provinces as Consensus Builders

If federal-provincial conferences, important as they may be for consultation and decision making about specific issues, are not workable forums for the development of national goals, should the provinces alone be left with the responsibility of creating a consensus? In a federal country such as Canada, with diverse regions, each province has its own aspirations, and it may be that the national goals can be nothing more than the sum of provincial aspirations. Some insights about whether such an approach would work are provided by an examination of provincial actions at and after the first ministers' conference on the economy in 1978.

Why, it may be asked, given the premiers' strong support at the conference for establishing a vehicle for consensus about the economy did nothing happen? All the leading players – Davis, Bennett, and to a lesser degree Lougheed – wanted the process of consensus building to continue, and Bennett and Davis had specific suggestions about how it should be done. Premier Bennett quite eloquently pointed out at the meeting that:

> . . . industrial policy in Canada has concentrated on narrow and short-term measures for individual sectors without the guidance of an over-riding set of national economic objectives. The results have been widely recognized: a weak and vulnerable industrial structure, often characterized by high costs and cross-subsidization of the less efficient by the more efficient industries, and a general decline in international competitiveness in all sectors. . . . [If] Canada's economic problems are deep-rooted, structural in nature and represent the result of many years of *ad hoc* policy making the solution will not be found in a series of cosmetic short-term measures. . . . The solution must come from a well thought out economic strategy that deals with the fundamentals of structural change.[37]

This statement was made in 1978, and yet, in spite of the recognition of the seriousness of the economic challenges facing Canada, no further effort was made by the premiers to create a national consensus about economic goals.

It might be argued that the agreement of the premiers, with the exception of Premier Lougheed, to cooperate with the federal government in the Tier I/Tier II consultative exercise was their method of keeping the consultative process in operation. That type of consensus building, however, was a far cry from the kind they had called for at the conference; it was at a totally different level. Moreover, the premiers did not give the Tier I/Tier II operation a very high priority on their agendas. Although they had agreed, again with the exception of Alberta, to respond to all the recommendations directed to them, some provinces did not do so. Others, including Ontario, responded only after considerable prodding from some of the private sector participants in the exercise. Tier I/Tier II did not constitute a meaningful follow-up by the premiers to their own clarion call for a national consultative process.

Various reasons may be postulated to explain this rather remarkable decline in interest by the premiers. It cannot be that economic problems were perceived to be less important, because every economic indicator was forecasting increased economic difficulties. There are no indications the premiers were abandoning their original position that national economic goals should be set by the provinces in conjunction with the federal government. Nor were there indications they decided that gaining a national consensus was not important (except that they did not act as if it were).

The most plausible explanation of the removal of the issue from the premiers' agenda is that in some of the larger provinces other matters had become more important. In Alberta, Premier Lougheed was fighting for higher oil prices; in Ontario, Premier Davis, with a minority government, was working to keep oil prices down; and in Quebec, Premier Lévesque was urging separatism. The other provincial leaders were either newly elected or had other provincial priorities.

The provincial leaders were aware also that a federal election was in the offing, and premiers heading Progressive Conservative and New Democratic Party governments were unwilling to grant Mr. Trudeau any type of perceived victory on any topic, let alone one as important as a national strategy (an indication of the extent to which federal-provincial relations had come to be regarded as zero-sum games.) All premiers, regardless of their political persuasion, believed that it would be easier to deal with a new Progressive Conservative government than with the Liberals.

Provincial premiers neither individually nor collectively have the power to provide the leadership for the development of a national consensus about economic policy. They can and must take such a role in building a strategy for their province and in developing mechanisms for consulting the major sectors in their jurisdictions. Beyond that, however, their role in national consensus building is limited to demonstrating how their provincial strategies affect and are affected by a national strategy. They must participate in shaping a national strategy, but they cannot be the catalyst for forming one.

In the final analysis the reason the premiers did not follow up on their call for a national policy was because other provincial priorities – political in nature because politicians deal with politics – became more important to them. And it will always be so. Provincial premiers have their base and obtain their legitimacy in the provinces, and they must always give priority to provincial problems. They cannot be, and by definition are not, national leaders.

It can be argued that such a situation in a federal state is not to be deplored but applauded. Perhaps in a large, diverse country such as Canada there can never be a consensus on overall goals. Perhaps consensus, if it means anything at all, must mean acceptance of the goals and objectives of each of the provinces, and the function of the federal government is to adopt policies that assist, to the extent possible, the provinces in achieving their objectives. Such an approach would allow each province to go its own way. But is this a viable option?

The Canadian economy, by world standards, is a small one; and the development of 10 regional economies, each independent of the other, seems grossly out-of-step with what is happening throughout the world. Given the changing nature of international competition, it seems an unrealistic approach; and for some of the smaller provinces, it is not even a viable one. Finally, such an approach implies a rejection on the part of the federal government of its constitutional responsibilities for interprovincial and international trade, for major monetary and fiscal policies, and for the peace, order, and good government of the nation.

The Federal Government and Consensus Building

If the provincial premiers do not have the power to initiate the development of a national consensus about economic goals, and federal-provincial conferences are not able to do so, can a consensus be created by the federal government? The answer is a qualified yes, qualified because it cannot do so without reforms of its procedures.

It was the intention of the framers of the Constitution, when the country was formed, that the national interests would be expressed through the central government, and a case can be made that one of the major tasks of a national parliament is to create a national consensus about economic goals and aspirations. In a pluralistic, democratic society, the legislative branch of government – that is, the House of Commons and the Senate – is the logical place for consensus making to take place. It is the only national forum where the national interest is expressed, by the members of the House, elected on the basis of representation of population, and where regional interests are expressed, by the members of the Senate, appointed, at least theoretically, to protect the interests of the provinces. Properly constituted and properly operated parliamentary committees are ideally suited to hear and evaluate input from all sectors of society about national goals so that a consensus can be created "from the ground up." Parliament also has constitutional authority over interprovincial and international trade and national economic policy. With its broad, general representation, protection of regional interests, and constitutional authority, Parliament is the appropriate place for the formation of consensus about national goals.

A joint standing committee of the Senate and the House, charged with the task of creating a consensus about economic goals, could elicit input from everyone interested in the matter. Presumably, the appropriate provincial officials, both elected and appointed, would present the views of their provinces about what national goals should be and how they should be achieved; industrialists would make their positions clear[38]; trade association executives would have an appropriate input, as would ministers of the Crown, union leaders, and consumer advocates. The best economists from all over the world could testify. Major presentations to the committee could be televised so that the public would be informed of the progress of the debate.

Once such a process for consensus creation was functioning and accepted, the need for federal-provincial conferences on general goals (as opposed to specific matters) would disappear, and the country would move on important issues from executive to legislative federalism. Most important, one of the essential elements of government under the consent doctrine – the right of the people to participate in the formation of the laws under which they live – would be restored.[39] Assumption by the legislature of such an important responsibility would do much to return to Parliament its proper role in a pluralistic democracy.

In spite of the obvious advantages of Parliament as the consensus-creating force in a democratic society, there is little confidence that Parliament can successfully perform such a task.[40] This skepticism exists for several reasons, but by far the most important is that through the years the role of the legislature in the actual governing process has declined so much that it is difficult for anyone to believe that it could actually perform an important continuing function. This decline is a consequence of the way in which the parliamentary system functions, the increase in the size of government, the unclear lines of jurisdiction among governments, and the way the legislature has operated over the past quarter of a century.

Although all the factors leading to the decline of the legislature are still present, none is so important that it nullifies the capacity of the legislative branch to create the elusive consensus about goals that is essential for the nation's future prosperity. Some reforms are necessary, but none is so significant that it cannot, with some political will, be put in place. Some of the most necessary changes are already under way.

Parliament and Policy Making

It is often suggested that Parliament cannot create a consensus about goals because it has no capacity to create policy. It is true that in the Canadian parliamentary system, the cabinet develops policy and Parliament is, at best, a policy-influencing legislature, exercising its will through scrutinizing and influencing the bills produced by the cabinet. The system is based on the "fusion theory of government"—the concept that the executive and the legislative branches work together as partners in the governing of the nation.[41] In sharp contrast is the "checks and balances" system, epitomized in the United States, where it is the function of one branch of government to check the power and influence of the other.

The fact that Parliament does not initiate policy does not in any way negate its capacity to develop a consensus about national goals. To the contrary, it supports this capacity. Policy making requires the hammering out of trade-offs among various interest groups; consensus building entails synthesizing and coordinating views of what the national economic goals should be. This is precisely what a properly functioning parliamentary committee should be able to do.

Parliament's Legitimacy for Consensus Creation

An essential condition for achieving consensus about anything is that all participants affected by the process must accept the legitimacy of the consensus-creating body. Unfortunately, Parliament does not have that legitimacy with all the important participants in the process. Yet, there are no reasons inherent in the system why such legitimacy cannot be obtained, although to do so will take considerable time, some reforms, and a commitment to make the consensus-creating system work.

Parliament has its least amount of legitimacy as a consensus-creating force with strong provincial leaders. It is an irony of history that Canada was founded with a strong, centralizing Constitution but has evolved into a nation with very strong provincial governments[42]; so while "parliament is the locus of responsibility and accountability for the national [interest] it is not the public and apparent locus of regional argument and compromise."[43]

There are many reasons for this development. The relationship between the provinces and the central government has always been complicated by the uncertainty about jurisdiction over many matters and the feeling by the provinces that too often the federal government has either ignored regional problems or co-opted them for solutions in the national interest.

In addition, the federal legislature's lack of credibility is reinforced by the nature of the representation from the regions within the federal government. Skepticism about the Senate derives from two things—the manner of Senate appointments and the perception of its efficiency. In a democracy a governing institution is never given legitimacy unless it is elected, and the performance of the Senate is judged by most to be less than satisfactory. Many perceive it as nothing more than a place which the government in power uses for patronage purposes. Calls for its reform have been extensive for more than half a century; they are now being replaced by calls for its abolition. It is simply not considered a useful institution for representing the interests of the provinces—theoretically its justification for existence.

The representation problem of the House is somewhat different. There would be no problem if the national parties in Canada always had broad representation from all regions, but such is not the case. Until the election in 1984, with the exception of a short period in the 1950s, the Progressive Conservative party has in modern times had virtually no representation from the Province of Quebec. Similarly, in the 1970s the Liberal party had little support in western Canada. After the election of 1979, Prime Minister Clark had to form a cabinet with only two elected members from Quebec; in 1980 Prime Minister Trudeau had only two elected members from the west.

Because in a parliamentary democracy power is concentrated in the government—there is no second place in an election—when the Clark and Trudeau governments made policy, large sections of the population were not represented in the process. Under such circumstances it is not difficult to understand why many people have become alienated from their central government and why they are unwilling to grant it the legitimacy it must have to operate effectively. It is natural that they turn to their provincial governments to protect the interests of the regions rather than to their own central government. Under these circumstances it is not astonishing that to deal with joint issues, not all of which are acrimonious, the executives of the provincial and federal governments have more and more arranged meetings to hammer out agreement. As a result, Parliament has been only peripherally involved in many of the most important issues relating to intergovernmental relations. Acceptance of its legitimacy as the appropriate forum for the resolution of national interests has, therefore, declined. As executive federalism has become more important, the role of all legislatures, federal and provincial, has become less. There is considerable evidence, however, that executive federalism is not the appropriate institutional arrangement for resolving many of Canada's difficult problems. Clearly it is not the appropriate institutional arrangement for creating a consensus about national goals, and it has also proven to be unproductive in other areas of government. Yet its use will not decline until the legitimacy of the central government is increased, and that will come only with two developments: a resolution of jurisdictional problems and a change in the nature of the representation at the centre.

The resolution of jurisdictional difficulties is an on-going process. There will always be some debate, given the nature of the Constitution, about which level of government should do what. Although it would be more efficient if many of the issues were resolved, their resolution is not an essential condition for the acceptance of the legitimacy of the central government as a consensus-creating body. Without changes in the nature of federal representation, however, it is doubtful that sufficient credibility will be granted to Parliament to make it possible to create a consensus.

The reforms essential for resolving the representation problem are not difficult to specify. In spite of the calls for abolition of the Senate, such a move would be a great mistake, for in a federal state there must always be a bicameral system of government. Provinces are deeply affected by federal legislation, so it is essential that the needs of the regions be thoroughly considered when legislation is enacted; that is what the Senate is supposed to guarantee. Various proposals to make the Senate a more effective body have been put forth, the most common being popular election with more or less equal representation from the provinces.[44]

Unfortunately, reform though much debated, is difficult to institute because many politicians prefer the body the way it is. Yet the urgent need for effective institutions to solve national problems may create public pressure sufficient for some political leader to find the courage to bring about the badly needed changes.

The role of a reformed Senate in the consensus-creating process could be great. Less tied as they are to the executive, Senate members of a Senate-House committee could, certainly while the system is being developed, bring a more independent view to the process than could committee members from the House. Moreover, charged with the specific responsibility of relating the interests of the provinces (and regions) to the national interest, senators could guarantee that regional interests are fully considered as a new consensus is being sought. In short, a reformed and productive Senate is a necessary part of the institutional structure required to create a consensus in a federal country.

The representation problem in the House of Commons could be resolved in several ways. One, of course, is always to have political parties that can elect members from all parts of the nation, but this can never be ensured. Another is to have some type of proportional representation whereby the geographic distribution of the vote is taken into consideration in determining the membership of the House. In 1980, for example, one out of every four voters living west of Ontario voted for the Liberal party candidate, but only two were elected. Under a proportional system the western voters would have had substantially greater representation and possibly more input into the formation of policy.

It is probable that the cause for the lack of legitimacy of the House of Commons with some sectors of the population could be overcome without any drastic change in the electoral system if power were less concentrated in the executive branch of government. If, through more free votes and greater authority for committees, among other possible measures, individual members were given the opportunity to represent their constituents effectively, much of the concern about legitimacy, because of the nature of representation, would disappear. Fortunately, such changes are under way.

Parliament's Capacity for Consensus Making

A further reason for doubting Parliament's capacity for creating a consensus is the widespread perception that Parliament is incredibly inefficient and unproductive in its operation. Much of this perception is justified.

Under the fusion theory of government, it is the responsibility of the legislature to advise the executive about bills and to scrutinize expenditures the cabinet proposes. These are its prime, though by no means its only, responsibilities. There is no question that it does not perform either function well.

For almost a quarter of a century auditor generals have reported "that Parliament . . . has lost or is close to losing effective control of the public purse . . . financial management and control in the government of Canada is grossly inadequate."[45] And this indictment underlies the report of the Royal Commission on Financial Management and Accountability.[46] Parliament also does not advise effectively. The Honourable

Robert Stanfield has written, "I do not know how we can restore government really responsible to Parliament"[47] – unless government does less, which is not likely to happen. The loss of control over expenditures has resulted in the removal of the ultimate sanction the legislature can impose on the executive – the refusal to vote money for the conduct of the affairs of the country. And this is a serious matter. The decline in the ability to advise has equally great implications. It has led to the loss of any real capacity on the part of the legislature, in fact if not in theory, to influence policy even at the margin. As a result members of Parliament neither individually nor collectively serve as a useful conduit through which the public can exercise its fundamental right to influence policy.

Given that Parliament is not performing its existing functions effectively, one can understand why there is considerable doubt that it could undertake additional responsibilities, such as consensus creation, and perform them well. There is, however, hope for improvement. Because of the broad recognition of the deficiencies in Parliament's operations, significant changes in its procedures were introduced in spring 1986. To fully realize the significance of these changes, it is important to understand the way the legislature has operated in the past.

For the past quarter of a century the basic work of Parliament has been done in parliamentary committees. Before World War II such committees were virtually unknown; in those simpler times most issues were analysed and debated in the House of Commons with all members participating. In the early post-war years committees were occasionally struck to deal with specific issues, but both Prime Minister King and Prime Minister St. Laurent thought of committees simply as "suitable repositories for issues which were politically volatile or on which the government was divided or had no firm policies."[48] Prime Minister Diefenbaker, probably because of his long and distinguished career in Parliament, had a different view of committees, and during his administration the Public Accounts Committee was established with the provisions that it meet each year to receive the reports of the auditor general and that its chair always be a member of the Opposition.

By the early 1960s, given the incredible increase in government activity, it was apparent that Parliament simply could not function unless significant changes were made in its procedures. As a consequence, after lengthy study and debate, the Procedures Committee of the House recommended the establishment of a complete committee system, and in the First

Session of the Twenty-Eighth Parliament in 1968 and 1969 such a system was put into effect.[49]

Committees were, and still are, microcosms of the House; that is, their membership is in the same proportion as membership in the House of Commons. Committee chairs – except for the chair of the Public Accounts Committee, who is always a member of the Opposition – are elected in theory by the committee, but are in fact always appointed by the executive.

Under the new rules, expenditure estimates were referred automatically to the appropriate committees, which were in turn required to report their findings to the House of Commons by a specified date. Similarly, all legislation was sent to a committee for examination (unless the House specifically decided otherwise). The function of the committees was primarily to expedite the business of government. They were not in any sense expected to have any policy-formulating function. At a committee hearing, legislation could be improved through amendment to particular sections, and witnesses could be heard about specific aspects of a bill, but no change in the substance of legislation could be made.[50] Even when the government referred a white paper to a committee for study, the powers of the committee were limited by what the executive wanted done.[51] A committee could occasionally have some influence on policy – for example, the special joint committee established to examine the questions about the repatriation of the Constitution – but such instances were simply exceptions that proved the rule.

Because the function of committees was to examine estimates and expedite legislation through the parliamentary system, committees operated with small staffs and with very little independence. Their purpose was to "scrutinize and advise." Their power and responsibilities have never been similar to those of the Senate or of the House of Representatives of the U.S. Congress. Congressional committees can introduce legislation and are expected to act as an effective check on the executive, under the American system of checks and balances.

The introduction of the formal committee system did expedite the work of Parliament, but it was apparent within a few years that the changes introduced were inadequate to ensure a productive role for the legislature in the governing process. In fact, primarily because of the enormous growth in government and the lack of an adequate support system, the committees did not do what they were supposed to do, and the legitimacy of Parliament declined even further.

The ineffectiveness of Parliament did not go unnoticed, and calls for reform of its operations, both from inside and outside the House, constantly increased.[52] As a result, on December 5, 1984, a Special Committee on the Reform of the House of Commons, chaired by the Honourable James McGrath, was appointed and given broad powers to examine the operations of the legislature. The final report of the committee,[53] tabled in June 1985, recommended dramatic and important changes in the way the legislature should function, particularly in the power of the committees; and many of the recommendations were accepted in April 1985 by the House for a trial period.

The McGrath system created 25 standing committees (including 3 joint committees of the House and Senate), replacing the 21 previous ones. One committee was established for each area of government operation, and the responsibilities of the new committees are to be much greater than those of the former. Under the old system the committees attempted to review legislation and expenditures and occasionally undertook special studies. Under the McGrath system the committees can recommend changes in proposals on the basis of policy grounds and also have the power to initiate special reviews, and to investigate and review certain cabinet appointments. They do not, however, review proposed legislation, as did former committees. Under the new rules a separate committee, with full powers to call witnesses and documents, is established to examine any bill that receives second reading. Committees are empowered to employ the necessary staff to complete their work. The government must respond to any committee report within 120 days of its tabling in the House of Commons, and any recommendation of a committee must be passed by the full House before it becomes law.

The adoption of the new rules, which increase the power of committees and private members, greatly enhances the influence of the legislature in the governing process. As a consequence its legitimacy is certain to rise and its procedures to improve. There is no question that the reforms make it quite possible for an appropriately established committee to be the forum within which a consensus about new national economic goals for the nation can be developed.

Parliament's Potential for Consensus Making

In spite of all the arguments advanced for the appropriateness and possibility of using Parliament as a consensus-creating body, there are two additional reasons why it may not be able to do so.

One is simply perception. The role of the legislature in the parliamentary system has declined so much that there is little confidence in its ability to do anything. Given the enormous problems that the Canadian economy faces, few, at first sight, would agree that the road to economic salvation must begin with the creation of a national consensus about national economic goals by a parliamentary committee.

And yet, such is surely the case. If one believes that the changing world conditions require that Canada adopt a set of consistent economic policies to deal with the changes, and the evidence that this is so is great, one must also accept the fact that such policies cannot be enacted, in a democracy, outside the framework of a consensus about national economic goals. A review of all the possible methods of creating a consensus indicates that the most likely place for a successful consensus to be developed is, indeed, in a properly structured and properly administered parliamentary committee. Cynicism about Parliament is no longer appropriate. What is needed is a concerted effort to ensure that a reformed Parliament takes on the responsibility that it, and only it, can perform in a pluralistic democracy.

The second difficulty is that executive federalism may have become so ingrained in the Canadian political process that provincial cabinet ministers, and certainly provincial premiers, will be quite unwilling to appear before federal parliamentary committees to make their case about economic goals. They may only be willing to meet with their peers—federal cabinet ministers and the prime minister. If this is the case, in the early efforts to develop a consensus, the appropriate parliamentary committee may have to hear presentations from all parties except the premiers; and its report, after debate in Parliament, may have to be considered at meetings of first ministers. Like the meetings on the Constitution between 1968 and 1971, these meetings could be of two types: (1) closed working sessions where negotiation and compromise, if necessary, take place, and (2) conferences open to everyone so that all of the positions can be put before the people.

The important point, however, is not the exact format of the exercise. It will change with experience and conditions. What is important is that a site for the search for a consensus be established, and that site surely has to be a committee of Parliament.

Creating Consensus: Initiating the Process

Under the new rules of the House of Commons individual committees can initiate their own activities, but it is clear that the initiation of the consensus-creating activity must come from the prime minister. Only the national leader has the legitimacy and the power to start the work of building a consensus about goals and the policies necessary for their fulfilment.

Occasionally a prime minister comes to office with a personal agenda of things he wishes to achieve: witness Mr. Trudeau's determination to repatriate the British North America Act and to establish a Canadian Bill of Rights; Sir John A. Macdonald's desire was to complete the physical building of the nation. Too often, however, leaders have no other agenda than simply to stay in power; history usually deals harshly with them. As Canada approaches the end of the twentieth century, political leaders no longer have the option of doing nothing or of picking their own agenda. None can sidestep the necessity of starting the process of creating a consensus about Canada's economic future. It will not, however, in the face of the entrenched power of regions, special interests, bureaucracies, and other forces opposed to change, be an easy thing to do.

The prime minister can begin the task of seeking a national consensus in a wide variety of ways—first ministers' meetings, royal commissions, white and green papers, and meetings with special interest groups and industrial associations of all sorts. It is important to remember, however, that when he consults different groups in different ways it is simply to gain assistance in defining the issues. Though it is the prime minister's responsibility to start and maintain the process of searching for goals and policies, it is not his task to create consensus. That chore is a continuous one that must be done in Parliament where all segments of society can present their views.

The administrative duties associated with the search for consensus should be assigned to a deputy prime minister, who would report to the cabinet through the Economic Policy Committee. The deputy prime minister must be supported by a permanent secretariat comprising the most able public servants from the Department of Finance, the Department of Industry, Trade and Commerce, the Department of Energy, Mines and Resources, as well as others, from agencies such as the Bank of Canada, and from the Prime Minister's Office to ensure that the work always has appropriate political input.

At one time it might have seemed possible to staff the activity out of an organization similar to the Ministry of State for Economic Development; but during its short history, the ministry, in spite of great efforts, was not able to assert sufficient authority to do anything more than begin thinking about how national goals might be defined. When Industry, Trade and Commerce was in charge of the Tier I/Tier II effort, a much more modest undertaking, there was interminable bureaucratic infighting. The Privy Council Office (PCO) cannot take on the activity because it must be non-political, and the goal-seeking function is a political one. Nor can the responsibility be left to the Federal-Provincial Relations Office of the PCO because identifying national goals transcends federal-provincial relations. It can properly be administered only by a deputy prime minister.

In short, the initiative for the establishment of national economic goals in a federal country such as Canada must come from the national leader, the prime minister. It cannot come from anyone else. It cannot be started by the provinces, by the federal Parliament, by the bureaucracy, or by any group without a legitimate political base.

The power of even the most popular prime minister is limited. It comes from his personality (although this source is usually ephemeral), his position, which permits him to reward and punish, and his organization, which provides him with the essential tools for persuasion – the most important source of power in a democracy.[54] Because power may be easily dissipated over time, it is most important that it be used wisely in the pursuit of goals essential for the well-being of the nation. As Canada approaches the twenty-first century, the powers of the prime minister must focus on initiating the consensus-seeking process about national economic goals.

It is simply defeatist to argue that a new consensus about economic goals and the policies necessary to achieve them cannot be developed in Canada. Economic policy has been governed by a national strategy based on national goals – the National Policy of Sir John A. Macdonald – for more than a century. It is quite irrelevant that revisionist historians now argue that it was a poor strategy – that the Canadian Pacific Railway was built too soon at excessive cost, that the tariff policy prevented the development of an efficient manufacturing industry, that the entire approach left Canada with a truncated industrial structure and a business community that favours government intervention.[55] All these points may be correct – the National Policy may well have been, from an economic point of view, a policy of the second best – but it does not matter. Politics and nation building dominated the thinking of the framers of the policy, not economics, and the fact that Canada is a prosperous country in the twentieth century is the real measure of its success.

The task is to have a vision for the nation as broad as that of the politicians of the nineteenth century and to develop strategies that are as appropriate for Canada in the twenty-first century as theirs were for the nineteenth. The problems are well defined: lack of competitiveness, changing patterns of international trade, extensive foreign ownership, chronic deficits in the balance of payments, and low productivity. It ought not to be beyond human capabilities to make the finding of solutions to these and similar problems national goals and to begin to develop measures to deal with them. Doing so is the prime minister's most important task. How well the occupant of that office succeeds in meeting the challenge of initiating the search for a national consensus about goals and the strategies to fulfil them is the standard against which history will measure his accomplishments. More important, his success will determine the economic prospects of Canadians in the years ahead.

Notes

1. See Chapter 4.

2. Richard Simeon, "Federalism and the Politics of an Industrial Strategy," in Science Council of Canada, *The Politics of an Industrial Strategy: A Seminar* (Ottawa: Science Council of Canada, 1979), p. 6.

3. See H.G. Thorburn, *Planning and the Economy: Building Federal-Provincial Consensus* (Ottawa: Canadian Institute for Economic Policy, 1984), pp. 8-13.

4. Ibid., p. 242.

5. Readers expecting a statement of what should be the contents of an explicit national consensus on economic goals may be disappointed that no such statement occurs in this book. The thrust of the argument in this study is that, at the moment, there is no process whereby a new consensus can be created and, therefore, that the major task of politicians and other leaders in the nation is to establish a process whereby such a consensus can be put in place. Only after the "process for consensus creation" is established and operational will we know the specific nature of the new consensus for economic goals for Canada.

6. John Crispo, *National Consultation: Problems and Prospects* (Toronto: C.D. Howe Institute, 1984), pp. 20-23.

7. C.R. McConnell and W.H. Pope, *Economics* (Toronto: McGraw-Hill Ryerson, 1981), p. 828.

8. Crispo, *National Consultation*, p. 8.

9. See Chapter 4.

10. Depending largely upon economic and political circumstances, power has moved back and forth between the federal and provincial governments ever since the country was founded. At the time of Confederation, power was with the central government. In the 1880s, aided and abetted by rulings of the British Privy Council, power moved to the strong provinces; in Laurier's time, it came back to the center as he succeeded in co-opting some of the stronger

provincial leaders into his government. In the 1920s it moved back to the provinces, again because of strong provincial leadership. In the Depression, when the provinces were unable to meet the costs of education, health, and welfare, power once again moved to the center, where it remained until the 1960s. At that time, a period of minority governments in Ottawa, it began moving back to the provinces, where, with the rise of the separatist movement in Quebec and the increase in wealth from resources in the western provinces, it remained until the mid-1980s. The movement was challenged, however, by a strong federal leader, Pierre Elliot Trudeau, and a strongly entrenched federal bureaucracy, with the result that conflict, not cooperation, became the norm.

11. Gordon Robertson, "The Role of Interministerial Conferences in the Decision-Making Process," in *Confrontation and Collaboration – Intergovernmental Relations in Canada Today*, ed. Richard Simeon (Toronto: Institute of Public Administration of Canada, 1979), p. 78.

12. Ibid., p. 80.

13. Don Stevenson, "The Role of Intergovernmental Conferences in the Decision-Making Process" in *Confrontation and Collaboration*, ed. Simeon, p. 89.

14. Ibid., p. 90.

15. Donald V. Smiley, "An Outsider's Observations of Federal-Provincial Relations among Consenting Adults," in *Confrontation and Collaboration*, ed. Simeon, pp. 108, 110.

16. Allan Cairns, "The Governments and Societies of Canadian Federalism," *Canadian Journal of Political Science* 10 (December 1977), p. 699, cited in ibid., p. 111.

17. Thorburn, *Planning and the Economy*, p. 7.

18. Robertson, "Interministerial Conferences," p. 80.

19. See Douglas Brown and Julia Eastman, *The Limits of Consultation* (Kingston: Institute of Intergovernmental Relations, 1981), pp. 36-42.

20. Ibid., 40.

21. Jean Chrétien, "Notes for Remarks," in *Federal-Provincial Conference of First Ministers*, Document 800-7/017 (Ottawa: Canadian Intergovernmental Conference Secretariat, February 1978), p. 3.

22. Jack Horner, "Report to the First Ministers' Conference on the Canadian Manufacturing Industry," in *Federal-Provincial Conference of First Ministers*, Document 800-7/069, p. 6.

23. "Conclusions of the Conference," in *Federal-Provincial Conference of First Ministers*, Document 800-7/078, p. 14.

24. Peter Lougheed, "Opening Remarks," in *Federal-Provincial Conference of First Ministers*, Document 800-7/052, p. 2.

25. William G. Davis, "Notes for Remarks on Economic Outlook and Objectives," in *Federal-Provincial Conference of First Ministers*, Document 800-7/026, p. 1.

26. Marc Lalonde, "Notes for the Honourable Marc Lalonde's Statement on Consultative Mechanisms," in *Federal-Provincial Conference of First Ministers*, Document 800-7/073, p. 2.

27. William G. Davis, "Notes for Remarks on Consultative Arrangements on the Economy," in *Federal-Provincial Conference of First Ministers*, Document 800-7/027, p. 4.

28. William R. Bennett, "Towards an Economic Strategy for Canada: The British Columbia Position," in *Federal-Provincial Conference of First Ministers*, Document 800-7/037, p. 16.

29. Lalonde, "Consultative Mechanisms," p. 3.

30. Davis, "Consultative Arrangements," p. 4.

31. Brown and Eastman, *Limits of Consultation*, p. 50.

32. Thorburn, *Planning and the Economy*, p. 175.

33. Stevenson, "Intergovernmental Conferences," p. 94.

34. See Robertson, "Interministerial Conferences," p. 84.

35. See Thorburn, *Planning and the Economy*, pp. 173-176.

36. Ibid., pp. 242-243.

37. Bennett, "Towards an Economic Strategy," pp. 8-9.

38. It is important to note that under this system of consensus creation the potential influence of business leaders is great—certainly much greater than any system built around federal-provincial conferences. It also means that business leaders must be willing to articulate their views in public and be able to defend them with vigour and ability. For some of the changes necessary for chief executive officers to fulfil such responsibilities, see Chapter 7.

39. There are two parts to the consent doctrine of government. The first one, that those who govern do so with the consent of the governed, is usually remembered. The second, that anyone affected by a law has the right to have some input, direct or indirect, into the formulation of the law, is often forgotten. A case can be made that a substantial decline in the application of the second part of the consent doctrine in Canada in the 1970s was a major reason for the antagonism that developed between the private and public sectors during that period. For a discussion of this point, see James Gillies, *Where Business Fails* (Montreal: Institute for Research on Public Policy, 1981).

40. Some evidence of this skepticism is the fact that almost every reviewer of this book in manuscript indicated that they did not believe that Parliament could be an effective consensus-creating body. They are people of little faith.

41. For a history of the changes in the functions of Parliament, see Philip Norton, ed., *Parliament in the 1980's* (London: Blackwell, 1985).

42. David V.J. Bell, "Regionalism," in *Introduction to Sociology*, ed. M. Rosenberg, W. Shaffir, A. Turowetz, and M. Weinfeld (Toronto: Methuen, 1983), pp. 593-599.

43. Robertson, "Interministerial Conferences," p. 83.

44. Smiley, "An Outsider's Observations," p. 112.

45. *Report of the Auditor General of Canada to the House of Commons for the Fiscal Year Ended March 31, 1976* (Ottawa: Minister of Supply and Services Canada, 1976), p. 9.

46. Royal Commission on Financial Management and Accountability, *Final Report* (Ottawa: Minister of Supply and Services Canada, 1977).

47. Robert L. Stanfield, "The Present State of the Legislative Process in Canada: Myth and Realities," in *The Legislative Process in Canada: The Need for Reform*, ed. W.A.W. Neilson and J.C. MacPherson (Montreal: Institute for Research on Public Policy, 1978), p. 44.

48. Michael Rush, "The Development of the Committee System in the Canadian House of Commons – Diagnosis and Revitalization," *The Parliamentarian* 55 (April 1974), p. 91.

49. *Fifteenth Report of the Procedures Committee of the House of Commons* (Ottawa: Queen's Printer, December 15, 1964).

50. The lack of any real power in the committees meant that they were eventually perceived, both by members and witnesses, with rare exceptions, as relatively useless bodies – all form and no substance.

51. C.E.S. Franks, "The Dilemma of the Standing Committees of the Canadian House of Commons," *Canadian Journal of Political Science* 4 (December 1971), p. 470.

52. For some suggestions put forth for reform, see Thomas d'Aquino, G. Bruce Doern, and Cassandra Blair, *Parliamentary Government in Canada: A Critical Assessment and Suggestions for Change* (Ottawa: Intercounsel, 1979), pp. 5-14.

53. James A. McGrath, *Report of the Special Committee on Reform of the House of Commons*, published under authority of the Speaker of the House of Commons by the Queen's Printer for Canada; available from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa (1985).

54. John Kenneth Galbraith, *The Anatomy of Power* (Boston: Houghton Mifflin, 1983), p. 54 ff.

55. John Dales, "Some Historical and Theoretical Comment on Canada's National Policies," *Queen's Quarterly* 71 (Autumn 1964), pp. 297-316.

Chapter 6:

From Goals to Action: Sector Forums Revisited

Once a consensus on national goals is developed, policies must be put in place to ensure that the goals will be achieved. Because policy making in the parliamentary system is a function of the executive, the responsibility for devising policies to realize these goals rests with the executive branch of the federal government, and it is not an easy responsibility to meet. For two major reasons, creating and implementing policies for attaining national goals is much more difficult than developing policies on most other issues. First, specific trade-offs have to be made between what is necessary in the national interest and what may be wanted by a particular group or industry. Second, difficult questions on how to share the gains and losses inherent with change have to be answered.

Making the Trade-offs

When a country has no particular goals or strategies, it is relatively easy to enact policies to do almost anything. Individual measures can always be justified on their own terms. However, once policies have to be assessed and selected for their effects on national goals as well as on firms, industries, and sectors, choices have to be made between the national interest and the special interest. Improving the efficiency of the Canadian economy is, for example, an admirable national goal – one that has wide support. However, as soon as it is recognized that the policies to fulfil the goal may require the removal of protective tariffs, the elimination of annual subsidies, the ending of bail-outs, and the abdication of regional development programs, the support for the national goal falls off, and a battle ensues between those who wish to see the national interest fulfilled and those who have special interests to protect.

The development of policies entails the making of choices, and when choices are made there are usually winners and losers. If the losers anticipate suffering major economic costs because of changes, they will, quite naturally, oppose their implementation; and because of the nature of the political process in a pluralistic democracy they have a strong chance of preventing new policies from being enacted.

In a well-functioning democracy every person or organization that may lose some benefit as a result of a policy change is represented in the public-policy-making process by a politician (and sometimes by a party of a province), who in the final analysis is responsible to the constituents. Although it is true that in the parliamentary system individual members have relatively little direct impact on policy making, they do have some influence on cabinet members, and they are always very conscious of their electoral prospects. It should be astonishing to no one that when all is said and done the positions of most politicians on policies designed to deal with national economic problems – unemployment, productivity, balance of payments, and so forth – are usually determined by how the policies affect the people they represent. Restricting imports of Japanese and South Korean automobiles may increase the cost of cars for all Canadians, but this is a matter of some indifference to the politicians who have automobile manufacturing plants in their constituencies. Their goal may be efficiency and high productivity for the nation as a whole in the long run, but it is not as important as jobs for their constituents today.

Prime ministers and their cabinets know that they do not act in a political vacuum – that at some point they are responsible to the electorate; indeed, if they wish to continue to govern they must never forget this fundamental point. Consequently, policy is always made with acute awareness of the implications of decisions on the electoral prospects of the party.

It is unrealistic to expect it to be otherwise. Promoting short-term pain for long-term gain is not, as John Crosbie, minister of finance in the Clark government learned, an effective way of ensuring a lengthy stay in office. The mandates of politicians are relatively short, and the motto "you cannot do anything unless you are in office" is widely accepted as justification for almost any action. Politicians know that they are more often judged by what happens to their constituents in the short-run than by their efforts to put policies in place to prepare for an unknown future – and they act on such knowledge.

Compounding the problems of politicians and parties who wish to support economic policies essential for the fulfilment of national economic goals against the pressures exerted by special interests is that their traditional base of support for national objectives – the business community – often disappears when they need it most. Business executives are often, and understandably, ambivalent about the desirability of achieving national goals when the policies designed to do so have an immediate negative effect on their organizations. After all, the major task of all chief executive officers is to ensure the continuity of the enterprise they manage, so they can hardly be expected to embrace, in the national interest, policies that might ensure its demise. Corporate leaders in principle deplore the use of subsidies, but when their firm is teetering on the edge of failure, they do not hesitate to seek government aid to save it from extinction, as Massey-Ferguson, Chrysler, Dome Petroleum, and Maislin well demonstrate.

The political reality is that under the current system of policy making, when interests perceive, correctly or incorrectly, that they will be negatively affected by policies designed to assist in the fulfilment of national goals, they will oppose – often with great success – their implementation. And it is only natural that they should. Why should any single group give up, at great cost, a particular advantage they may have had for years, in support of some ephemeral thing known as "the national goal"? It is unfair that they should and it is naive to think that they will.

In addition to having to deal with the pressures mounted by interest groups, either through direct lobbying or through individual members of Parliament, governments also know that the policies they enact to achieve national goals will not, over the longer term, be supported by the electorate if it is perceived that they result in the injustice of one group paying a high price for change (for example, being forced out of business) while a larger group receives the benefits. It can, therefore, be taken as a given that policies essential for the fulfilment of national economic goals are unlikely to be enacted unless there is a process in place whereby the costs of their implementation are shared, and are perceived to be shared, equitably by all sectors.[1]

All governments are, of course, aware of these difficulties. Some find them so great that they do nothing; others attempt to nullify them by enacting programs that ease the costs of the transitions change brings about. Because of the pressures on governments and the fear of the consequences of change, the natural inclination of governments is more often to prevent change – through tariffs, subsidies, bail-outs, and so forth – than to promote it.

The situation is well illustrated by the discussions of the merits of a general free trade agreement between Canada and the United States. Industries that expect to be negatively affected by free trade do not concentrate on how to adjust or put forth ideas for programs to facilitate the transition, rather, they mount attacks on the viability of the entire free trade proposal. (See Appendix A.) The "losers" have little confidence – and with some justification – that the adjustment policies will be adequate. They therefore prefer to fight for the *status quo*.

In Japan, where economic policy making in the face of changing conditions is probably the most successful in the world, the reconciliation of special interests with the national interest is accomplished through many consultations among the parties affected by change through a myriad of forums and councils at all levels – official deliberative councils, industrial councils, government agency councils, officially sanctioned trade associations, and hundreds of formal discussion groups on almost every conceivable issue.[2] Japanese society and government is, however, much more consensual than Western pluralistic democracies, so a decision-making structure that worked in Japan would not necessarily work in Canada. Yet it would be a mistake to underestimate the willingness of groups in Canada to attempt to find agreement on relatively specific issues.

Unlike in the United States, where a strong popular approach has always dominated policy making, in Canada, ever since Confederation, "strong corporatist values [have] influenced the public policy process. These values stress the primacy of group over individual interests and an organic view of society in which the 'common good' transcends individual interests. . . . Conflicts are . . . resolved by mutual accommodation [using suasion and bargaining] among institutionalized interest groups."[3] The experience in the 1970s with the Tier I/Tier II exercise, though flawed, demonstrated that representatives of different groups (in that case, business and labour) can meet to discuss matters of mutual interest in a constructive fashion.[4]

Organizing Sector Forums

To develop the policies necessary to fulfil new national goals, the existing institutions for policy making in the executive side of government need to be supplemented with another source of input. There must be a method whereby the people, regions, industries, and firms directly affected by the change can contribute to the policy-making process. Allowing these interests to make policy recommendations is the essential step for ensuring (1) that the issues of equity among winners and losers is adequately addressed, (2) that input from the most knowledgeable persons is obtained when policies are developed, (3) that compromises are understood so that special interests are subsumed to the national interest,[5] and (4) that the new programs have widespread support because the process not only seems to be but is, in fact, fair. The vehicle for making recommendations, for want of a better term, may be called sector forums.

These groups must become a permanent source of information for the government in the policy-making process. They must be the place where the various groups affected by the changes, which the policies designed to implement a new consensus about national goals will inevitably bring, come together to assess the costs and benefits from change. They must be the place where ideas can be generated, and perhaps even agreement can be reached, about ways of sharing the costs and benefits of change. They must be the place where, as a consequence of efforts at reconciling special interests with the national interest, recommendations can be made about the allocation of research funds, and innovation grants, about competition laws, and about the transfer of resources from inefficient uses to more efficient ones. It will not be the task of forum members to create visions of what might be done but to create understanding and support so that something can be done. Sector forums will not be designed for exchanging information but for making recommendations to the cabinet for action.

Forums, to be useful, must have influence and must be permanent. This latter requirement cannot be overestimated. No group can be productive unless it has a continuing presence, not only to keep up to date on all issues and to take responsibility for the results of the actions it recommends, but also to maintain influence and power. To ensure that forums do have influence, it is essential that they report to someone who has influence. Since the responsibility of initiating the development of a consensus about national goals and the policies necessary to fulfil them should lie with a deputy prime minister, the forums should report to him.

Forums would comprise representatives of the stake holders affected by the new policies who would be appointed by the federal government after consultation with the appropriate groups. Members should be able and resourceful, deeply involved with and knowledgeable about the activities of their sectors, and committed to the proposition that new policies must be enacted if new goals are to be achieved. Forums presumably would be small in size and supported by able public servants. Because the purpose of forums is to involve as many of the affected interests as possible in discussions of trade-offs, the groups, though small in size, would be great in number. Exactly how many there are will depend on how the process unfolds.

Can sector forums make an important contribution, or would they become nothing more than pleading groups for special interests? Simply because they work in some countries is there any reason to believe they would be useful in Canada? Moreover, is there not far too much government and semi-government already in Canada? With all the risks, why bother creating them?

The answer, of course, is that forums may not be effective and may not achieve their purpose; but there is no reason why they should fail if their members are committed to the new national goals. Their task is simply to provide well thought out recommendations to the government about how to gain support for implementation of the policies essential for achieving the national goals. If they do not do so, they will be of little value, will have no influence, and will eventually wither away.

The Tier I/Tier II exercise of the 1970s proved that representatives of different sectors were capable of meeting and finding common ground, but the exercise was nonetheless, ineffectual in developing policies, Why would sector forums be any more successful in the 1980s? There are five reasons:

- The forums would be designed to create policies within the context of national goals and objectives. Such was not the case in the Tier I/Tier II exercise. Although the Department of Finance prepared some overall projections for the economy, there was no overriding strategy, built on a national consensus, to which the 1970s sector reports had to conform.
- The government was not committed to the sector process. The sector forums would be a permanent part of the policy-making apparatus of government.
- The sectors had little or no power base. The forums would report directly to the deputy prime minister.
- The sectors were a one-time venture; forums would be permanent.
- There was little sense of urgency at the time of the sector exercise. The forums are essential in light of the need to reform the economic policy-making process in Canada to meet the challenges posed by changed international conditions.

Making Sector Forums Work: Shifts in Influence and Power

It is relatively easy to recommend the organization of sector forums to assist in working out the trade-offs that will be necessary within various parts of the economy if national goals are to be achieved. It is quite another thing, however, to set them up and make them work. The very existence of new policy-providing bodies will change the base of power in government, and no group and few persons are ever willing to give up power easily. As Bertrand Russell has written, "Of the infinite desires of man the chief are the desires for power and glory."[6] Resistance to the shifts in influence and power that the creation of sector forums will engender is not likely to be so great that it cannot be overcome.

At first, federal cabinet ministers holding economic portfolios would appear to be the greatest losers or power. The prime minister, instead of obtaining all his advice on industrial policy for the steel industry, for example, from the minister responsible for the industry, will have another important source of input. Ministers will argue that the establishment of forums will move the development of public policy from those directly accountable to the people to an elite, unaccountable body – and in some respects they will be correct. The extent of the change is not, however, as great as it might at first appear; for with the growth in government activity, in the cabinet committee system, and in strong central agencies, the role of ministers in policy formation has changed dramatically over the past two decades. They no longer have the influence they had in the past, so the introduction of another source of information on issues is not as revolutionary as it once would have been.

Still any change will be resisted; it always is. In the early 1970s, for example, when Prime Minister Trudeau wished to appoint an informal group to give advice on the economy, John Turner, then minister of finance, is reported to have threatened to resign if the prime minister proceeded with his plans. Turner was not prepared to have his position undermined by Mr. Trudeau receiving advice outside the established circles of the cabinet and the bureaucracy. In that particular situation Turner won – the group was never appointed. And today, it is certain that the appointment of influencial sector forums would be resisted just as strenuously.

There are, however, many ways by which the resistance can be defused and many reasons it should be. It is widely recognized in Ottawa that the scarcest resource is cabinet ministers' time. The responsibilities of ministers normally include: running a major department, representing a constituency, fulfilling political responsibilities for an area, defending the government in the House of Commons, preparing legislation for the approval of cabinet, shepherding bills through the House (including appearing at Commons committee meetings), attending cabinet committee meetings, and preparing policy. The area of responsibility receiving the least attention is policy preparation, for which most ministers rely heavily on public servants. Their direct personal input is limited, sometimes because they have no knowledge of the issues pertinent to their department (after all, between 1974 and 1979 the average time a federal minister held a portfolio was 18 months), but more often because of the long tradition in Canada that the government is run by amateur politicians supported by professional public servants. Consequently, a decline in the influence of ministers because of the development of another significant mechanism for proffering advice to the prime minister – advice ministers may be ill-equipped or reluctant to give anyway, since it could entail politically dangerous trade-offs – will be fought by cabinet ministers for reasons more cosmetic than real.

Most recommendations that emanate from sector forums will require, if not legislation, at least cabinet approval. It is at this stage that a minister can exercise power, for while the development of forums may diminish a minister's influence it will not lessen his power at the cabinet table or in cabinet committees. Ministers will, nevertheless, have to be convinced by the prime minister of the necessity of supporting the work of the sector forums.

For Parliament itself, the appointment of sector forums will not make much difference. In the "fusion" system of government the legislature has little input into the formation of policy; its function is to scrutinize and approve. Because many legislators would like to see the influence of public servants (the traditional source of policy) diminished, members of Parliament will probably applaud the development, in that forums will provide another avenue for the input of information into the policy-making process.

The big losers of influence, and the power that goes with influence, will be the senior bureaucrats in all the economic portfolios, with the possible exception of Finance. One of the most cherished duties of many public servants is developing and providing advice on issues. Although this function will remain, it will be less significant since the prime minister and the cabinet will receive advice from the sector forums. There will be, therefore, great resistance from many elements in the public service to the development of forums, if the development is perceived to be serious. The capacity of some members of the public service to prevent change, if they view it as threatening to their power base, is tremendous. If forums are to be instituted and used, the reaction from the senior bureaucracy will have to be neutralized.

Similarly, the power of the Privy Council Office (PCO) will decline. Historically, the PCO has always been available as a source of advice for the prime minister. With the evolution of the cabinet committee system, its power and influence has waxed and waned depending on the wishes of the prime minister of the day. The essential role of the PCO is to see that the policy control and coordination process of the cabinet works, not to provide an independent source of policy advice. There is no reason to believe that it would necessarily resist any new method of providing advice for the making of policy that any prime minister and his government wished to introduce.

It may be argued that the decline in influence of the senior policy advisers in the departments and the central agencies would not be a bad thing. There is a body of thought that governments need input from several sources if effective policy is to be developed. The productive operation of forums would eliminate, or at least lessen, the cry, which arises after every change in government, for senior public servants to be replaced because they are captives of the ideas of the previous administration. In this respect, forums should lead to more sanguinity in the senior levels of the public service. It is often suggested, also, that the delivery of government services should receive more attention. The development of sector forums would allow senior officers in line departments to devote more attention to the administration of existing legislation and the operations of their departments, probably all to the benefit of the taxpayer.

The prime minister and the Prime Minister's Office have become in fact it not by law the ultimate locus of power in the federal government. The development of sector advisory bodies reporting to a deputy prime minister does not appreciably increase the power of the office, although they will provide a source of information that was not previously available.

Organizations outside government that work with the forums, such as business groups, trade associations, and volunteer agencies, will gain influence. They will have, through the forums, access to the most powerful forces in the government. The establishment of forums is probably the only way in modern society by which groups outside the formal government structure can have significant influence on the development of policy.

There is little doubt that since the mid-1960s organization has replaced personality and property as the ultimate locus of power.[7] The power of property to influence public policy has declined to the point of having almost disappeared. If business, or any other sector, wishes to have power through influence, it has little choice but to support the development of a permanent institutional arrangement where it can have an input into the policy-making process in an organized fashion. It will not obtain it in any other way.

Targeting Winners and Losers

Making policy decisions explicitly entails the choosing of winners and losers, and it may be argued that no group, regardless of how it is organized, can do so effectively. The experience of other countries that have followed specific policies for targeted growth industries supports such a view. Japan, the leading practitioner of the approach, has had its failures as well as its successes. Moreover, there is little evidence to indicate that countries that have followed a strategy of trying to promote winners have had better economic performance than those that have not. Certainly the experience of provincial and federal governments in Canada in picking winners has not been particularly good; some of the choices have even been disastrous and at great cost to the taxpayer.[8]

Although it may be difficult to pick winners, it is relatively easy to identify losers. Industries, or firms within industries, that need subsidies to continue in operation over a considerable number of years are obviously less efficient than those that do not. There may be many valid reasons for continuing assistance to such organizations through tariff protection, subsidies, or price support programs, but one of them is not their efficiency. By any business definition, industries that cannot operate without assistance are losers.

An analysis of the hundreds of uncoordinated government programs of assistance, most of which were established after extensive lobbying by the recipients of the benefits, clearly indicates who, in economic terms, the losers are. One of the primary reasons for targeting, therefore, is to identify the losers so that rational decisions can be made about whether resources should continue to be used to support them. Common sense suggests that they should not. Targeting has as much to do with identifying and eliminating support to losers as it has with picking the elusive winners.

Even though the future is uncertain, technological and economic trends can be identified, and this is what much of contemporary industrial targeting is all about. Targeting does not depend on the displacement of the market by bureaucratic fiat, but instead "reflects cooperative efforts by public and private sectors to understand the nature of technological change and to anticipate its likely economic effects."[9] Its purpose is to ensure, as much as possible in a rapidly changing world, that the limited government resources available for supporting industrial activities are used in a coordinated and sensible fashion to produce "aggressive investment behavior by reducing risks, providing information, promoting research and development, removing irrational anti-trust barriers, encouraging appropriate education and re-education of the labour force."[10]

Sector Forums and the Provinces

The creation of influential sector forums, at the federal level of government is not a threat to the sovereign powers of the provinces. On issues directly affecting the provinces, provincial representatives would be part of the appropriate sector group. The federal government will be responsible for initiating and in a very real sense managing the forums, but it will not necessarily administer all the programs gestated in the forums. To the contrary, they may well be carried out by a provincial government or by the private sector acting alone. Experience demonstrates that the wise and effective federal leader attempts to move the implementation of policies as far from the central government as practical. Forums may eliminate duplicate programs, bring about more efficient administration of those that are left, and enhance cooperation between the provincial and federal governments in the provision of services. Given the experiences of federal-provincial relations in the first half of the 1980s the last point is not unimportant.

After the 1980 election, the federal government found it difficult to work with some of the provinces and felt it was not receiving sufficient credit for what it was doing, so it adopted a strategy of operating programs with or without the consent of the provinces. It pushed ahead on the traditional central government task of improving the economic infrastructure – it acted unilaterally to change the Crows Nest railroad rate agreement, for example – without waiting for provincial agreement. Monies were made available for the financing of megaprojects, primarily through a $4 billion Western Development Fund, on the condition that they produced large industrial benefits to Canada as a whole, and the Department of Regional Expansion was charged with seeing that such benefits were realized. An Office of Industrial Adjustment was established, again unilaterally by the federal government, to assist firms in the textile, clothing, and footwear industries to modernize. And the Ministry of State for Economic and Regional Development posted a senior officer in each region with the specific task of informing not the provincial governments but industries, firms, and citizens about federal government policies. In short, the federal government went about introducing and operating policies whether or not provincial governments wanted to be involved or even wanted the programs in their jurisdictions. Because "the federal government . . . [had] most of the relevant constitutional jurisdiction and the taxing power, it was able to develop national policies and disregard the provinces whenever it chose."[11]

Any approaches developed by the forums could not encroach on provincial prerogatives more than those used by the federal government in the early 1980s. Provincial leaders should welcome sector forums as a system that improves the working relationships between provincial and federal officials and respects jurisdictions as the participants look for trade-offs and develop policies to fulfil national objectives. Provincial premiers may even want to follow a similar approach for making the trade-offs inherent in policy setting in their own jurisdictions.

Business Leaders, Politicians, and Sector Forums

Forums can be effective only if there is trust between members of the public and private sectors. Business executives must be willing to participate in the process of working out the trade-offs required by policies for fulfilling national goals. Management must recognize that the process of forming policies within a national strategy has political overtones; without acknowledging what is and is not politically feasible, the exercise will be futile. They must also accept and respect the differences in the goals of business and politics.

For business leaders participating in the sector forums, there are risks. Working with governments is never easy because the political agenda can and does change rapidly; if something goes wrong, executives may have to take the blame. The better they understand the political process, the greater their chances of controlling the fallout from various actions. This should not, however, be a serious problem within sector forums. After all, forums would be established as a permanent place where groups can negotiate quietly to ensure that the interests of the members are met as the national interest is promoted, which should be to everyone's benefit.[12]

For their part, politicians participating in the forums must recognize that they need the private sector as much as the private sector needs them. They must accept that the most efficient way to organize resources is usually through the private sector. The politically motivated subsidization of losers behind high tariffs, creation of Crown corporations, and awards of regional grants to build firms in uneconomical locations must give way in the national interest to programs of assistance for adjustment, re-education, and training.

Trade-offs are difficult to negotiate, but if the national goals are sound, they can and will, in the national interest, be made. As one analyst of consensus building observed, achieving mutually agreeable solutions to complex issues:

> . . . [is] not an easy process and relies heavily on the art of listening and listening perceptively between the lines . . . it is devoted to the quest for irreducible facts, for the factual and the tendential. It requires candor and mutual respect. It exhausts charity, patience and persuasion. It does not presume rationality . . . it is comfortable with a mixed but acceptable system. It seeks agreement on a few matters rather than a comprehensive plan. Consensus building does not depend upon political might or the exercise of governmental or market power. It does not thrive on strident tones or in programs or platforms. It is not congenial to doctrinaire adherences to the left or to the right . . . it is not the greatest good for the greatest number since it is sensitive to the interests of internal minorities.[13]

Creating Effective Forums in Canada

All the shifts in influence and power entailed in the organization of sector forums will be resisted. Politicians will be skeptical; business leaders nervous; bureaucrats uncertain; journalists scornful; academicians divided. The success of the approach depends almost entirely on the commitment of the prime minister to move in such a direction. Even with a great commitment, the restraints inherent in a pluralistic democracy may prevent the concept from working.

Yet, as the twentieth century draws to a close, most Canadians believe that the central task facing the federal government is to solve economic problems. Calling for reform in the policy-making system to achieve this objective should not, therefore, lead to substantial public resistance. The prime minister will simply be trying to do what everyone wants done. And in so doing, he will reinforce his own position; for "how truly powerful a leader may be [is often] judged by how well he can persuade his followers to accept his solutions to their problems, his path to their goals."[14]

In the Canadian political system, there may be conditions that impede, but there are no inherent reasons that prevent the policies for achieving national goals from being put in place. It has been done in other countries; it can be done in Canada. But to do so will require great political resolve and imaginative organizational changes to ensure that the costs and benefits of fulfilling the national interests are properly assessed and fairly shared.

Notes

1. It is always possible to pay the full costs to the losers when a change is made if the change results in a general improvement in the economy. A basic assumption underlying the implementation of all policies is that the gains from doing so are greater than the losses or else the policies would not be adopted. Therefore, full compensation can be made to the losers, and there will still be something left over for the rest of society. This concept in economic theory is known as Pareto's optimum.

2. Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford: Stanford University Press, 1982), Chap. 6.

3. W.T. Stanbury, "A Framework for the Analysis of Business-Government Relations in Canada," in *Canadian Cases in Business-Government Relations*, ed. Mark C. Baetz and Donald H. Thain (Toronto: Methuen, 1985), p. 4.

4. See Chapter 4.

5. The types of trade-offs that the members of the forums must make can be illustrated by two examples.

   Suppose that a national goal is to increase productivity in the Canadian economy, and one policy for doing so is the elimination of all subsidies for manufacturing operations that are not competitive in world markets. Suppose also that there is a regional steel operation receiving an annual subsidy in order to operate. Assume that the only way to make the operation competitive is through the investment of more than $1 billion to upgrade the steel-making equipment, but because the potential rate of return is low, no private investors are willing to supply the funds.

   To fulfil the national goals the steel forum would probably recommend that the manufacturing operation be closed. Obviously, this solution would be unacceptable to the company and would not fit the political requirements of the government. This recommendation must, therefore, be accompanied by additional recommendations on how the costs of the closing to the employees, the investors (if there are any left), the community, and the region are to be met.

Or consider bail-outs for individual firms. Decisions have to be made about whether taxpayer funds, either directly or indirectly, should be used to save a failing company, and if they are, what the government should demand in exchange—an equity position in the firm, a share in management, or commitments for certain types of action in the national interest.

6. Bertrand Russell, *Power: A New Social Analysis* (New York: W.W. Norton, 1938), p. 11.

7. John Kenneth Galbraith, *The Anatomy of Power* (Boston: Houghton Mifflin, 1983), pp. 5-55.

8. There are many examples, including heavy water plants in Nova Scotia, forest products in Manitoba, automobiles in New Brunswick, and oil in Ontario.

9. Chalmers Johnson, *The Industrial Policy Debate* (San Francisco: Institute for Contemporary Studies, 1984), pp. 9-10.

10. Ibid., p. 11.

11. H.G. Thorburn, *Planning and the Economy: Building Federal-Provincial Consensus* (Ottawa: Canadian Institute for Economic Policy, 1984), p. 203.

12. See Joseph L. Bower, *The Two Faces of Management* (Boston: Houghton Mifflin, 1983), pp. 218-255.

13. John T. Dunlop, "The Consensus: Process and Substance," in *Towards a New U.S. Industrial Policy?* ed. Michael L. Wachter and Susan M. Wachter (Philadelphia: University of Pennsylvania Press, 1981), p. 498.

14. Galbraith, *Anatomy of Power*, p. 46.

Chapter 7:

The Economic Future: Bleak or Bright?

As the twentieth century comes to a close, great economic changes are sweeping the world. Whether the changes will bring growth or stagnation to a country depends to a considerable degree on how the country adapts to them. In those nations that attempt to maintain the *status quo* by implementing policies that run counter to international economic trends, economic growth and development is certain to decrease. The forces of economics will prevail in the future, as they have in the past.

Inasmuch as the Canadian economy, perhaps more than most, is influenced by international changes, it is clear that a new consensus, consistent with the new international realities, about national goals will have to be forged and policies consistent with the goals will have to be enacted if the nation's economic potential is to be fulfilled. This, in turn, requires the evolution of a system for developing consensus, some changes in the current methods for making policy, the establishment of a permanent, effective, and continuous process for consultation between the private and the public sectors, and a major reassessment by the leaders from all sectors of their responsibilities to their organizations and to the nation.

These things can be done, but they will take a long time. Unfortunately, if the past experience with change and adjustment is any indication of the ability of Canadian institutions to adapt rapidly to new conditions, the Canadian standard of living may well have dropped appreciably before the policies essential for success in the new international market-place are actually put into effect.

Institutional Inertia versus International Change

Several years ago, shortly after I was elected a member of Parliament, sitting in the House of Commons one afternoon I found myself bitterly wondering why I had ever agreed to stand for election. It was clear to me that the House could do nothing, that members were simply ciphers, that most of the activities were at best symbolic and at worst cosmetic, and that the entire activity was a charade. Question period was a totally unproductive forum for eliciting information and was used almost entirely to gain political points or advance personal careers. No speech, however eloquent, changed a vote in the House when the whips were on; and except for the occasional free vote – always presumed to be on a matter of conscience – the individual member simply did not matter. It was impossible to represent the interests of one's constituency other than through trying to influence a general party position in caucus debate, and even if one had a modest impact in doing so, it really did not matter because policy was established by the cabinet largely on the advice of public servants. It seemed to me that I was locked into a totally useless activity for at least the next four years.

Things change. Seven years later I was still in the House, and it did not seem so bad. It had not altered, but I had. The fact is, the system co-opts you, and what at one time seems intolerable eventually becomes quite acceptable. The longer you serve, the better it seems. John Diefenbaker thought Parliament was perfect.

This is one of the major reasons it so difficult to reform the institutions of government. To the participants, particularly those with considerable seniority, the system seems reasonably adequate; so change is viewed as disturbing and unnecessary.

It is, of course, very difficult to make even minor adjustments, let alone major changes, in large institutions, regardless of whether they are in the public or the private sector. On the few occasions when changes are introduced, it is always argued that they should be incremental and gradual so that if any great mistakes are made, damages can be easily contained. Only changes with predictable results should be allowed.

Recognition of these two factors – the power of institutions to co-opt their members and the difficulty of altering large enterprises – makes it easy to understand why adjusting the institutions of government, regardless of the force of the arguments for doing so, is difficult. Calling for a reformed Parliament, so that it may become the place where a new national consensus can be developed, and for alterations in the administrative side of government, so that the trade-offs inherent in new policies can be more easily worked out, is at best met with some skepticism and at least great indifference. Eventually change takes place, but only over a long period of time.

Time, however, may be the one thing that Canada does not have, for the world has already changed. Although all the dimensions and implications of the new international economy are not yet fully understood, the trends are clear, and they have significant implications for Canada – not in the future but now.

Consider the following economic realities. Raw material and commodity prices compared with industrial prices are the lowest in recorded history, and there is no reason to believe, unless there is a major war, that they will increase in the foreseeable future.[1] The export market for food, because of the enormous increase in production in the third-world countries, had virtually disappeared. Only Japan and Russia are still major importers. The demand for almost all other raw materials has dropped relative to the supply, not because the manufacturing sector is less important than it used to be (it is not), but because the amount of raw material needed per unit of economic output has declined. Japan, for example, consumed only 60 per cent as many raw materials for the same volume of output in 1984 as it did in 1973. Canadians need only consider that 50-100 pounds of fibreglass cable can transmit as many telephone messages as a ton of copper wire to realize how much the changes in the patterns and nature of world production are affecting the Canadian economy.[2]

Moreover, while the patterns of supply and demand of raw materials and commodities have changed greatly, the output of most manufactured goods per unit of labour employed has dropped precipitously. In the United States between 1973 and 1985, total employment grew from 82 million to 110 million, but the entire growth was in non-manufacturing jobs. Great Britain has been in industrial decline since 1960 largely because "the number of blue-collar workers per unit of manufacturing output went down far more slowly than in all other non-communist developed countries."[3] In countries with rapidly growing economies, there is a negative correlation between the increase in manufacturing output and the amount of manufacturing employment.

Movements of the invisible items in trade – intellectual property rights, interest payments, services – are now more important in the calculation of exchange rates than the movement of goods. In the 1980s there is little relationship between capital movements and trade in goods; capital flows and exchange rates are quite independent of traditional trade patterns.[4]

Every one of these changes has important implications for Canadian policy. The decline in the demand for, and consequent fall in the price of, commodities as well as the drying up of markets for agricultural products put into question the traditional basis of Canadian trade policy. Programs designed to lessen unemployment by stimulating manufacturing activities will probably not work.[5] In fact, programs developed to stimulate jobs rather than production will almost certainly ensure the loss of both.

Programs to encourage the importation of capital – the Canada-is-open-for-business approach – which imply interest rates relatively higher than those in similar areas of the world, could be misguided. The costs of money and equity capital are now more important for the development of competitive strategies than the presence of resources and the costs of labour, so a high-interest-rate policy, in the long run, is certain to be self-defeating. Needed are domestic policies to lower the production costs of goods so they can be sold at competitive prices in world markets. But such polices can be developed only if the economic goals for the nation in the future are different from those that have prevailed in the past.[6]

Most significant, it is clear that Canada, like other nations, regardless of their size, cannot hope to maintain full employment and price stability through the application of traditional Keynesian policies or any purely domestic variation of them. If there is to be growth and prosperity, policies must be made and measured by their effects on the capacity of Canadian producers to compete in world markets. The world economy is now the driving force for economic prosperity.

These are only the more apparent policy issues created for Canada by the great international changes. None can be effectively dealt with until changes are made in the institutions of government. Strange as it may seem, the economic future of Canada has come down to a race between institutional inertia and international change, and at the moment international change is winning hands down.

It is highly likely that if no action is taken, it will not be long before international changes depress the Canadian economy.[7] It is urgent, therefore, that a new consensus about goals and about policies to fulfil them be developed as rapidly as possible. It may be that action will come only as a result of crisis – it is often that way in a democracy; but one may hope that it will not take a serious economic depression to stimulate work on the development of new economic policies appropriate to the times. Surely there is sufficient evidence to encourage political leaders and others to begin immediately to put in place the essential institutional changes so that the policies Canada must have to guarantee future growth and development may be enacted. Institutional inertia must not be the major cause for the decline in the Canadian standard of living.

Rethinking Adam Smith

The changes necessary to sustain real economic growth in Canada will never be implemented without the support of politicians, public servants, business and labour leaders. No group alone can ensure the success of new policies, but the absence of any one group from participation in the programs for change could ensure their failure, with enormous negative consequences for Canada's economic future.

The responsibility for the formulation of new policies lies with the government, but their successful utilization rests largely with the private sector.[8] Although in Canada, more than in most countries, governments are involved in the creation of goods and services, still almost 80 per cent of direct economic activity in the nation is generated in the private sector through privately managed enterprises. Unless business executives are willing to operate within the framework of new policies, little will be accomplished. Therefore, without implying that there is a "first among equals" it is clear that a necessary, though not sufficient, condition for the successful carrying out of new policies is the support and active participation of the business community. What changes in the attitudes and behaviour of modern Canadian business leaders does this require?

There is widespread recognition and acceptance among business leaders that they have a responsibility, as do the leaders of all sectors of the economy, to help formulate the social and economic boundaries within which business operates. Consequently, participating in hearings and undertaking other activities associated with the generation of national goals does not pose particular problems for business leaders. Once a forum is created where national goals can be hammered out, the leaders of the business community will play their role in the process.

When it comes to formulating the policies essential for fulfilling the goals, however, the position of business leaders becomes much more difficult. They will not be able to contribute significantly to the process without a radical change in the thinking of chief executive officers (CEOs) about the relationship between their responsibilities to their firm and to the national interest. Adam Smith's most famous axiom, which underlies much of the philosophy of modern business—that by following their own self-interest business executives are "led by an invisible hand"[9] without intending it, without knowing it, to advance the interests of society – may have to be re-examined.

Smith's traditional view, which dominates modern business, needs rethinking because in a complex, pluralistic, changing society it is not clear that by promoting their self-interest, at least in the short-run, business leaders are also promoting the national interest. There may well be a conflict. Traditionally, the self-interest of business is defined as being the maximization of profits and assurance of the continuity of operations of the enterprise. When CEOs attempt to influence public policy, it is usually in support of these goals. When they do so, if Smith's theory is correct, they are also contributing in the most positive way possible to the maximization of the national interest. When domestic automobile manufacturers, for example, seek quotas on foreign imports, they not only maximize benefits to their firm but in the process help increase total employment, normally a national goal. The same is true of manufacturers of textiles supporting tariff barriers. There is no conflict.

What happens, however, when the goals of the nation are to increase efficiency through the removal of all tariffs and quotas? How can corporate leaders be expected to work toward the fulfilment of national goals when their achievement means the extinction of their own enterprises? How can business executives be expected to put the national interest ahead of individual interests when it has been engrained in them that the maximization of the interests of the individual will lead to the greatest good for the greatest number because there is no conflict between the two?

The answer is that many business leaders simply cannot place the national interest first. Their normal position is to fight for the interests of the firm. They do not recognize that the national interest and the individual firm's interest may conflict. Certainly, there is no sentiment in Canada, as there is in Japan, that the national interest always comes first. The stature of CEOs in Japan is measured by the extent to which their enterprises contribute to the fulfilment of the national goals.

Such a philosophy has never existed in Canada, not because Canadian business persons are more avaricious or narrower in their thinking than Japanese, but because of the dominance of Smith's thinking. It has never been accepted that there may well be a major conflict between the goals of the firm and the goals of the nation. Yet when policies are constructed to fulfil the national goal, trade-offs will have to be made, and those trade-offs may not always be in the short-term interests of the individual enterprise.

Helping to achieve the national goals would be small comfort to the chief executive officers who in the short-run see their firm collapse. But no one should be put in such a position. If an effective method for measuring gains and losses and an appropriate series of transitional programs are part of the policy-making process, as they must be, the short-term consequences to individual organizations of supporting programs in the national interest must never be so dramatic. If the transfer of resources from inefficient to more efficient uses is the goal, the costs to the people affected must be minimized.

Even if a public strategy of compensation for losers is adopted, it will still be difficult for many business leaders to cooperate in building processes specifically designed to promote change, to determine the costs of change, and to propose programs for sharing the costs. For many it is an article of faith that economic adjustments are best brought about through the free operation of the market. So there is widespread belief that efforts to work out trade-offs to facilitate change are not only unworkable but unnecesary. In a perfect world, this faith would be well founded.

The best way to bring about efficient use of resources no doubt is through the impersonal operations of the market; but the world is not perfect, and at the end of the twentieth century few in positions of political or economic power are prepared to let the market be the sole instrument for economic adjustment. Politicians will not, because the economic consequences of doing so are unacceptable to the electorate they represent; business leaders detrimentally affected by the forces of the market will not (in spite of any philosophical preferences), because of the losses they stand to suffer from change. Pressures to isolate sectors of the economy from the market through tariffs, quotas, marketing boards, and subsidies are so great they cannot be resisted, unless a method is developed whereby those who lose because of the removal of such impediments to efficient resource allocation are compensated.

The deeply held, theoretically correct notion that the market alone will bring about all the adjustments necessary to fulfil national goals is simply incorrect when applied to the contemporary Canadian democracy. Business leaders must recognize that a wide variety of conditions – political, sociological, cultural, as well as economic – must be met for resources to be moved from non-productive into more productive uses. If change not the *status quo* is to be the driving force for modern Canadian management – and it must be – business leaders must be sufficiently flexible to participate enthusiastically in the work of the sector forums, which are specifically designed to assist in making adjustments politically possible. Reliance on the market is a useful but insufficient condition to guarantee progress toward meeting the national goals of the economy.

In only one way can the Canadian business community have an impact on the formation of public policy – an impact all sectors must have if the nation is to prosper – and that is by vigorously supporting the development and use of permanent sector forums as part of the policy-making process. For such a process to be effective, no matter how well designed, private business leadership must accept in fact as well as in theory a different set of priorities for management.

First and foremost, senior management must become deeply involved in the task of building a consensus about national goals and the policies for meeting the goals. Second, achievement of the national goals must become a major goal of management. Third, accommodating the activities of the firm to the achievement of the national goals must be the *sine qua non* of the business activity. Fourth, supporting policies that may lead to demise of a firm, when it is in the national interest to transfer resources to new uses, must become as appropriate an activity in the future as lobbying to maintain the *status quo* has been in the past.

Acceptance of these new priorities, though difficult for most and impossible for some managers, will increase the influence of the private sector in the economy and secure a more profitable future for individual firms and industries within the nation. If these changes are not accepted or cannot be made, it is clear that business leadership will not play the important role it must in the development of new economic policies for the nation. "Elite accommodation," that is, the formulation of policy on the basis of common value systems between senior public servants, politicians, and business executives, will never return; electing more members of Parliament with extensive management experience, though important, is not sufficient; and relying on *ad hoc* consultation between government and business organizations on issues as they arise will never be satisfactory. If Canada is to prosper in the decades ahead, a permanent, rational system for consultation between the private and public sectors must be developed.

New National Economic Goals: New National Economic Policies?

What should the new national economic goals be? What are the key elements in a new national economic strategy? No one can now answer these questions. Goals and strategies can only be developed through broad consultation within the framework of reformed institutions. It is, however, highly probable that the factors that have been so important in Canadian history – resource development, selected manufacturing, reliance on the U.S. market – will continue to be important elements in any new approaches.

As the twentieth century comes to a close, new policies must be enacted that do at least two things the present ones do not. First, they must control the negative effects of the traditional approaches – low productivity, continuous deficits in the current account of the balance of payments, and rigidities in the use of economic resources. Second, they must facilitate adjustments to the changing patterns of world production and trade.

Policies, regardless of their exact form, that meet these requirements have two characteristics: they promote change, and they are reinforcing. This means that the era when individual policies can be placed one on top of the other, in response to every particular political pressure, is over. Public policy must no longer sanction the inefficient use of scarce resources. Special interests must not take precedence over the national interest.

Every new policy must result in an aggregate increase in economic well-being, otherwise it should not be adopted. It follows, therefore, that the benefits from change will be greater for society than the losses. Losers can be fairly compensated for their economic losses, and it must be a tenet of public policy that they are. Therefore, firms and people can be better off, certainly no worse off, for subsuming their individual interests to policies that lead to the fulfilment of national goals.

Canadians have been told innumerable times that difficult choices must be made among different economic policies, and this is certainly true. But the choices have never been made, because neither the nature of the trade-offs involved nor the manner in which losers from trade-offs were to be compensated has ever been specified. The institutions of government, as they are now operating, are not capable of answering these questions for the Canadian people. If progress is to be made toward fulfilling new national economic goals the institutions have to be changed.

In a free society, under the consent doctrine, citizens have the right and responsibility of contributing to the formation of the public policies under which they live. When policies have an immediate or even future effect on the well-being of people, it is essential that this condition of living in a pluralistic democracy be fulfilled in fact, not in theory. It is imperative, therefore, given the nature of the policies that must be adopted to secure future growth in Canada that the federal government meet the challenge of developing a truly workable system of creating consensus. It is the essential first step, unglamorous as it may be to some, in the process of guaranteeing prosperity for Canada in the twenty-first century.

Canada, as a nation, is one of the world's greatest success stories. Will it continue to be so? With strong leadership, political will, imagination, and commitment from the participants in both the public and private sectors, of course, it can be. Indeed, one may be optimistic that the twenty-first century is destined to belong to Canada.

Notes

1. Peter F. Drucker, "The Changed World Economy," *Foreign Affairs* 64 (Spring 1986), p. 769.

2. Ibid., p. 773.

3. Ibid., p. 775.

4. The London Eurodollar alone turns over a volume at least 25 times that of world trade.

5. This raises the question whether Canada should be encouraging the manufacturers of automobiles from Japan and South Korea to locate in Canada. The plants will not provide much employment, but the firms will have guaranteed access to the market.

6. For the procedures to develop such goals, see Chapter 5.

7. In economics few changes are quantifiable in terms of when they will take place. In 1986 Canadian agriculture was already suffering from the drop in world demand for agricultural products.

8. See Chapter 2 for a discussion of the government's role in direct activity.

9. Adam Smith, *An Inquiry into the Nature and Cause of the Wealth of Nations*, (New York: Random House, Modern Library, 1937), p. 423.

Appendix A:

Consensus Building and Free Trade with the United States

During the spring of 1986 negotiations to develop a free trade treaty between Canada and the United States began. The impetus for the move came primarily from Canada, but it had the support of the U.S. administration.

Although at first sight, efforts to obtain a comprehensive free trade agreement might appear to be a major new thrust in Canadian economic policy, the treaty, in fact, would be the logical extension of past policies. Since the end of World War II, Canada has supported at meetings of members of the General Agreement on Tariffs and Trade and in international agencies all efforts to eliminate barriers to trade. Moreover, a major bilateral treaty – the Auto Pact – already governs a large proportion of the trade in manufactured products between the United States and Canada.

The 1986 free trade initiative, therefore, does not mark a radical change in economic policy; it is simply the next in a series of policies that have always been based on classical, nineteenth-century economic analysis. It does, however, mark a change in political strategy. No government for almost three quarters of a century has been willing to place the issue of free trade with the United States at the top of the political agenda.

Because a free trade treaty would not be a radical break in tradition, it should be realized that freer trade with the United States will not affect the Canadian economy as dramatically as might be supposed.[1] The major result – and it is a very important one – of signing such a treaty – would be the guaranteeing of access to the U.S. market for the products Canadian producers already sell there.

Because it is an extension of existing policies the government has made no public attempt to integrate the free trade initiative into any process for developing a new consensus about economic goals and policies for the nation. The initiative stands on its own. No attempt has been made to place it in the context of the worldwide decline in demand for natural resources and agricultural products, the increasing significance of invisible items in the balance of payments, the impact of capital flows on exchange rates, and the new patterns of U.S. and world trade. Rather, the government has proceeded on the assumption that the existing consensus about goals – one that has existed for a century – and the policies that flow from them are appropriate.

This is not to say that the government has not attempted to convince the Canadian people of the necessity of a free trade agreement. Change is always resisted, and the size and extent of adjustments many fear an agreement will bring have led the government to launch a campaign for the proposal. And it has done so in traditional Canadian fashion. Various ministers have criss-crossed the country consulting with representatives from different sectors about the implications of trade; advisory committees of business leaders have been appointed; efforts have been made to draw the provincial premiers into the discussion; the Macdonald Commission has reported in favour of the move; and discussion of the implications of the treaty are the highlight of every political meeting.

There are problems, however, with this traditional approach. Though there is no question, given its majority in the House of Commons, that a determined government can approve a treaty leading to freer trade between Canada and the United States, this is no guarantee (1) that an explicit national consensus exists about the virtues of such a step[2] and/or (2) that it fits into the appropriate economic goals for the nation. There is no enthusiastic consensus because the losers from any agreement do not know how they will be compensated for their losses; no mechanism exists to ensure that the gains and losses that will inevitably result from any changes will be fairly distributed.

A more appropriate approach would have been to refer the entire question to a joint committee of the Senate and House of Commons. Surely, it is before a committee of the representatives of the people that the principle of a freer trade treaty with the United States should be debated. Such a committee could have held public hearings – in contrast to the specially selected private consultation that has taken place – so that all groups, or their representatives, as well as experts could have presented their views. Hearings could have been televised to create the broadest possible public understanding of the issues. At the hearings the implications of the treaty could have been examined in relation to other major economic changes that are occurring so that the public would be informed of the advantages and disadvantages of the proposal. Only through such a process can an explicit, truly national consensus be created.

Opposition to a new treaty comes, naturally, from those groups who expect to suffer economic losses as a result of the change. Their fear is justified, for while there is much discussion of the need for transitional programs there is no process to guarantee them. Fears could have been dissipated had there been sector forums in which representatives of all those affected by changes could recommend to the government ways of sharing the costs and benefits of the proposed treaty. It is unjust for one group to experience heavy losses while modest benefits are enjoyed by everyone else.

Throughout the discussions, much has been made of the virtues of "sectoral free trade." It is argued that the Auto Pact has been so successful because safe guards, ensuring a share of production in Canada, were built into the original agreement. The U.S. government made it quite clear at the beginning of the 1986 discussions, however, that it would not negotiate any more sectoral free trade agreements. The Canadian government must, therefore, develop its own safe guards for various areas; and that, of course, is precisely what sector forums are designed to do.

The government should make the case that no sector will be economically disadvantaged by free trade. This does not mean that changes will not take place, but that transition programs will be part of any final disposition of the issue. With such an approach any group that expects to be disadvantaged is asked to participate in the formation of policies to alleviate any economic hardship they expect enactment of the treaty might cause them.

As the negotiations proceed, it is highly likely that the need for permanent, effective sector forums, as an integral part of any policy-making process when special interests must be subsumed to the national interest, will be demonstrated. In addition, it will become clear that major initiatives must be taken within the context of an overall consensus about economic goals for the economy. Consequently, the process of establishing a system for the development of consensus in this complex pluralistic society may begin. This result could be more important, at least in the long run, than any specific consequences induced by the treaty itself.[3]

Notes

1. This does not mean that certain specific areas may not be greatly affected by a free trade agreement but rather that the overall effect on the economy may be much more modest than is sometimes suggested.

2. This does imply, of course, the existence of an implicit consensus: that a policy can be put in place through the accepted processes, and, therefore, the consequences of the policy will be accepted by the people.

3. I realize that as Keynes observed in the long run we are all dead, and attention should, therefore, be focussed on the short-term consequences of actions. Institutional change, however, always takes many years, so it is never too soon to attempt to get it started.

Appendix B:

Keeping Resource Processing in Canada

It is sometimes contended that governments, both provincial and federal, as long ago as the turn of the century, were concerned about foreign ownership and the inflow of foreign capital. However, this is not so. A short review of some of the policies affecting foreign-owned firms that were enacted at that time clearly indicates that governments were reacting to a different problem – the processing of resources. They were not interested in who owned industries but in whether there were employment opportunities for Canadians.

Many attempts have been made through the years, with varying success, to deal with the processing issue. In 1891 British Columbia prohibited the export of unprocessed timber, and Ontario followed with a similar measure in 1902. Quebec reduced the royalty paid for timber cut on Crown lands by one third in 1900 if the timber was processed in the province. Most important, in 1897, the federal government imposed an export tax on pulp. As a result it was less expensive for American manufacturers to produce paper in Canada than in the United States, so they moved their operations to this country.

The U.S. government retaliated by placing an import duty on paper of $2.00 per ton. The only consequence of the action, however, was that the price of paper in the United States increased by the amount of the tax, so in 1913 the tariff was dropped. As a result of government policies, a strong newsprint industry developed in Canada.[1]

It is important to note, however, that the policy initiatives were successful because of very special circumstances: Canada was the only economical supplier of pulp to the U.S. market at the time; costs of production were low because large amounts of relatively inexpensive power were available; and the price paid for paper was almost inelastic, that is, as the price increased the amount demanded dropped very little. If these or equivalent special conditions had not existed, neither would the policies.

The case of nickel illustrates the point. Ore bodies rich in nickel and copper were discovered in the Sudbury area in 1883. By 1890 they were being developed and were proving to be the richest in the world. All the ore was exported for refining in the United States, and it was estimated that by 1914 refined nickel produced from Canadian ore supplied 75 per cent of the world market – 60 per cent of the European market and 100 per cent of the American.

Production was controlled by the International Nickel Company, and there was no tariff on imports of nickel ore or nickel matte into the United States, but there was a substantial tariff on refined nickel. The government of Canada, and particularly the government of Ontario, wanted the nickel to be refined in Canada. In 1891, therefore, the province drafted legislation placing a tax on nickel and copper ore, a tax that would be rescinded if the ore was upgraded in Canada. In 1897 the federal government prepared legislation calling for an export tax on ore of 10 per cent per pound. Neither piece of legislation was ever enacted because, unfortunately for Canada, unlike the situation in pulp, there were other major sources of supply of nickel ore. If the export tax had been adopted the International Nickel Company would simply have acquired its ore elsewhere, and the Sudbury mine would have had to close or at least lose the largest, most lucrative market in the world – that of the United States. There simply was not a sufficient cost advantage in the production of Canadian nickel ore to withstand the proposed taxation. Eventually, a nickel refinery opened in Port Colborne, Ontario, in response not to economic forces, but to pressures that developed during World War I.[2]

It is clear, therefore, that at the turn of the century, governments were using policy to influence the action of foreign owners. But then, as now, it was apparent that what could be done by policy was greatly constrained by economic forces. It is a lesson not yet well learned.

Notes

1. For a discussion of the policies designed for the forest industries, see H.G.J. Aitken, "Defensive Expansionism: The State and Economic Growth in Canada," in *Approaches to Canadian Economic History*, ed. W.T. Easterbrook and M.H. Watkins (Toronto: Macmillan, 1978), pp. 210-212.

2. For a discussion of the attempts to increase the processing of nickel in Canada, see O.W. Main, *The Canadian Nickel Industry: A Study in Control and Public Policy* (Toronto: University of Toronto Press, 1955).

Appendix C: Matrix of Some Government Development Initiatives for Canadian Industry

Key:

*** = explicitly a part of the program
** = a partial part of the program
* = can be considered to be related to the program

Initiative	Focus of Policy					Goal of Program				Measures or Methods Incorporated into Program					
	Activity Specific [a]	Regionally or Locally Specific [b]	Sector Specific [c]	Industry Specific	Firm Specific [d]	Improve Market or Employment	Stimulate Innovation	Smooth Structural Adaptation	Restructure International Economic Relations	Direct Subsidies or Cost Sharing	Government Ownership or Direct Involvement	Public Sector Purchases	Loan Guarantees	Aid to R & D	Tax and Credit
Departments and Programs															
EIC 13: Local Economic Development Assistance Program		***					*	***			***		***		
EIC 20: New Technology Employment Program	***					***	***			***				***	
EMR 2: National Energy Policy	***	***	***	***	*		***	***	***	***	***	*			***
EMR 98: Industrial Energy Research and Development Program	***		***	***			***			***				***	
FBDB 1: Services of the Federal Business Development Bank					***	***							***		***
ITC 8: Defence Industry Productivity Program				***			*		***	***				***	
ITC 14: (Forest Industries) Cooperative Overseas Market Development Program		***		***					***						
ITC 22: Enterprise Development Program			***		***				***	***			***	***	
ITC 42: Small Business Loans Act	***				***								***		
ITC 47: Export Market Development: Financial Incentive Program	***								***				***		
NRC 26: Industrial Research Assistance Program	***	***								***				***	
Crown Corporations															
CN 1: Canadian National Railways	***			***		*					***	**			
EDC 1-3: Export Development Corporation	***					*		*	***				***		
PC 1: Petro-Canada	***	**	***	***		*	*		***		***	**			

a. Activity Specific: promotes a specific national goal; e.g., energy self-sufficiency through the National Energy Policy. b. Regionally or Locally Specific: provides support for a region or locality; e.g., subsidies to firms to locate in a specific area under the Local Economic Development Assistance Program. c. Sector Specific: assists a specific sector; e.g., the National Energy Policy specifically assists the oil and gas sector. d. Firm Specific: supports a specific firm, e.g., the National Energy Policy provides assistance to Petro-Canada

Note: EIC = Employment and Immigration Canada; EMR = Energy, Mines and Resources; FBDB = Federal Business Development Bank; ITC = Industry, Trade and Commerce; NRC = National Research Council; CN = Canadian National; EDC = Export Development Corporation; PC = Petro-Canada

Appendix D:

Questionnaire for Participants in the 1970 Strategy Debate

1. There is a general view, expressed most directly by Richard D. French in his book, *How Ottawa Decides*, that the thrust for an overall industrial strategy that emerged shortly after the election of Pierre Trudeau as prime minister came from the Priorities and Planning Secretariat of the Privy Council Office; that is, it was primarily internally generated, and there were no great political pressures for such a program. Would you agree with this characterization of the situation?

2. In general, cabinet ministers in the period 1968-1972 had only modest confidence in and support for the work of the Priorities and Planning Secretariat, finding it primarily an essentially peripheral but very powerful and enormously time-consuming distraction. Do you think that this is a reasonable characterization of the situation at that time?

3. By 1972 there was a government commitment to develop an industrial strategy, but the commitment resulted from the power of the PCO rather than from a consensus among cabinet members and the departments involved in economic policy making. Do you think this properly assesses the situation?

4. Would it be correct to assume that:
   - senior officials in Finance and in Industry, Trade and Commerce thought that it was naive to try to develop an overall strategy?
   - ministers and deputy ministers in the key departments thought they were being asked to do the impossible and the undesirable?

- the Department of Finance in particular, with the strong support of Mr. Reisman, took a strong stand against attempts to develop an overall strategy?

5. After the election of 1974 the concept of an overall strategy was replaced by the sectoral approach simply because it was impossible to get a realistic consensus among ministers and senior bureaucrats on what an overall strategy should be. In fact, ministers tried to reduce discussion with the public about the concept of an industrial strategy. Is this view correct?

6. By 1976-1977 the PCO accepted the sector/consultative approach because it was impossible for a coherent overall strategy to be developed by the relevant departments. Do you think this is correct?

7. Why do you think that the minister of labour and the Department of Labour were not included as "up-front" players when the Tier I/Tier II program was being implemented?

8. Given the nature of the Canadian economy, there is a general feeling that Canada is more likely to back into an industrial strategy than to adopt one deliberately. The political reality is that to accept a strategy of technological sovereignty or a formal common market with the United States as a basis of policy making is an action too explicit, too confrontational, and too controversial ever to be supported by any government. Do you agree?

9. Because it is difficult to get a single overall strategy, there is some talk now of developing "horizontal strategies, i.e., energy, transportation, infrastructure change, *et al.*" as building blocks on which economic development will naturally take place. It is argued this is the only way to make change because it is possible to build a consensus of support for such items, whereas it is impossible to build support for more general, abstract ideas. There may be short-term political gain for such an approach, but it simply prolongs the essentially defensive posture of Canadian industrial policy. Do you have any views on this question?

10. From your experience do you think that the development of an industrial strategy depends more on public attitudes

than any particular organizational structure of government?

11. To be successful, any attempt to develop an overall industrial strategy must be rooted in politics in a way that was not true in the 1970s. Do you agree?

12. In 1972 the commitment of the government to develop an industrial strategy was fundamental. In 1984, in a greatly changed economic environment, Canada still does not have one. Can Canada ever have an overall strategy, as in Japan, and other countries? Should Canada even try to?

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